

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

BEST AVAILABLE
COPY

1991 FORM 10-K

(Mark One)

- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1991

OR

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File Number 33-44862

ISP CHEMICALS INC.

Delaware
(State of Incorporation)
Rt. 95 Industrial Area, P.O. Box 37
Calvert City, Kentucky
(Address of Principal Executive Office)

13-3416260
(I.R.S. Employer
Identification No.)
42029
(Zip Code)

Registrant's telephone number, including area code: (502) 395-4165

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Commission File Number 33-44862-01

ISP TECHNOLOGIES INC.

Delaware
(State of Incorporation)
State Highway 146 & Industrial Road
Texas City, Texas
(Address of Principal Executive Office)

51-0333795
(I.R.S. Employer
Identification No.)
77590
(Zip Code)

Registrant's telephone number, including area code: (409) 945-3411

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Commission File Number 33-44862-02

INTERNATIONAL SPECIALTY PRODUCTS INC.

Delaware
(State of Incorporation)
818 Washington Street
Wilmington, Delaware
(Address of Principal Executive Office)

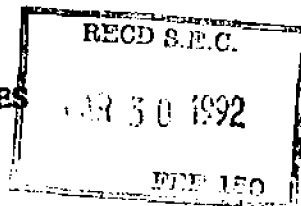
51-0333696
(I.R.S. Employer
Identification No.)
19801
(Zip Code)

Registrant's telephone number, including area code: (302) 429-8554

Securities registered pursuant to Section 12(b) of the Act: None

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None



PROCESSED BY

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DISCLOSURE
INCORPORATED



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Exhibit Index appears on page 17

(Continued on following page.)

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(Continued from previous page.)

See Table of Additional Registrants Below

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best knowledge of International Specialty Products Inc., in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

As of March 13, 1992, ISP Chemicals Inc. and ISP Technologies Inc. each had 10 shares of common stock outstanding. No shares are held by non-affiliates.

As of March 13, 1992, 99,888,646 shares of common stock of International Specialty Products Inc. were outstanding. The aggregate market value of the voting stock held by non-affiliates of International Specialty Products Inc. as of March 13, 1992 was \$208,336,301. The aggregate market value was computed by reference to the closing price on the New York Stock Exchange of International Specialty Products Inc.'s Common Stock on such date (\$10.75.) For purposes of this computation, voting stock held by officers and directors of all of the registrants and GAF Chemicals Corporation, an affiliate of International Specialty Products Inc., has been excluded. Such exclusion is not intended, and shall not be deemed, to be an admission that such officers and directors are affiliates of International Specialty Products Inc.

As of March 13, 1992, each of the additional registrants had the number of shares outstanding which is shown on the table below. No shares are held by non-affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

The Annual Report to Stockholders of International Specialty Products Inc. for the year ended December 31, 1991 is incorporated by reference in Part I, Item 1, and in Part II, Items 6, 7 and 8.

ADDITIONAL REGISTRANTS

	Exact name of registrant as specified in its Charter	State or other jurisdiction of incorporation or organization	No. of Shares Outstanding	Commission File No.	I.R.S. Employer Identification No.	Address, including zip code, and telephone number, including area code, of registrant's principal executive office
4	ISP (PUERTO RICO) INC.	Delaware	10	33-44862-03	13-2626732	Suite 206B Inuregui Plaza 65th Infanteria Ave. Rio Piedras, Puerto Rico 00924 (809) 768-5400
5	ISP ENVIRONMENTAL SERVICES INC.	Delaware	10	33-44862-04	51-0333801	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
6	ISP FILTERS INC.	Delaware	10	33-44862-05	51-0333796	12916 Farmington Road Livonia, MI 48150 (313) 421-8650
7	ISP GLOBAL TECHNOLOGIES INC.	Delaware	10	33-44862-06	51-0333802	818 Washington Street Wilmington, DE 19801 (302) 429-7492
8	ISP INTERNATIONAL CORP.	Delaware	10	33-44862-07	51-0333734	818 Washington Street Wilmington, DE 19801 (302) 429-7493
9	ISP INVESTMENTS INC.	Delaware	10	33-44862-08	51-0333803	818 Washington Street Wilmington, DE 19801 (302) 429-7496
10	ISP MANAGEMENT COMPANY, INC.	Delaware	10	33-44862-09	51-0333800	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
11	ISP MINERAL PRODUCTS INC.	Delaware	10	33-44862-10	51-0333794	34 Charles Street Hagerstown, MD 21740 (301) 733-4000
12	ISP MINERALS INC.	Delaware	10	33-44862-11	51-0333798	Route 116 Blue Ridge Summit, PA 17214 (717) 794-2184
13	ISP REAL ESTATE COMPANY, INC.	Delaware	2	33-44862-12	22-2886551	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
14	ISP REALTY CORPORATION	Delaware	1000	33-44862-13	13-2720081	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
15	VERONA INC.	Delaware	100	33-44862-14	22-3036319	NCNB Plaza, Suite 300 7 North Laurens Street Greenville, SC 29601 (803) 271-9194
16	BLUEHALL INCORPORATED	Delaware	1	33-44862-15	13-3335905	818 Washington Street Wilmington, DE 19801 (302) 651-0145

PART I

Item 1. Business

General

International Specialty Products Inc. (the "Company") is a leading multinational manufacturer of specialty chemical products, including specialty derivative chemicals, mineral products, filter products and advanced materials.

The Company, incorporated in Delaware in 1991, operates its business exclusively through 15 domestic subsidiaries consisting of ISP Chemicals Inc. ("ISP Chemicals"), ISP Technologies Inc. ("ISP Technologies"), the additional registrants, 20 foreign subsidiaries and a joint venture with Hüls Aktiengesellschaft, a German corporation ("Hüls"), in which the Company has a 50% interest and which operates under the name GAF-Hüls Chemie GmbH ("GAF-Hüls"). The Company acquired these subsidiaries and its interest in GAF-Hüls from an affiliate, GAF Chemicals Corporation ("GCC") in May 1991 in a stock acquisition (the "Stock Acquisition"). All historical financial data relating to the Company contained in or incorporated by reference in this report have been prepared to reflect the formation of the Company, the Stock Acquisition and the allocation of certain expenses. See Notes 1 and 11 of Notes to Consolidated Financial Statements of the Company contained in the Company's Annual Report to Stockholders for the year ended December 31, 1991 (the "Annual Report"). In July 1991, the Company completed an initial public offering of 19,388,646 shares or 19.4% of its common stock (the "Initial Public Offering"). Subsequent to the Initial Public Offering, the Company has been an 80.6%-owned subsidiary of GCC. GCC is a wholly-owned subsidiary of G Industries Corp. ("G Industries"). G Industries is a holding company which also owns directly 100% of the capital stock of two operating subsidiaries, GAF Building Materials Corporation ("Building Materials") and GAF Broadcasting Company Inc. ("Broadcasting"). G Industries is a wholly-owned subsidiary of G-I Holdings Inc. ("G-I Holdings"). G-I Holdings is a wholly-owned subsidiary of GAF Corporation ("GAF").

The Company is indirectly controlled by Samuel J. Heyman, Chairman of the Board of Directors and Chief Executive Officer of the Company and GAF. See "Item 12. Security Ownership of Certain Beneficial Owners and Management."

ISP Chemicals, ISP Technologies and the additional registrants are consolidated subsidiaries of the Company and constitute all of the domestic subsidiaries of the Company. ISP Chemicals was incorporated in Delaware in 1987 under the name Nordenham Inc. ISP Technologies was incorporated in Delaware in 1991 under the name ISP 6 Corp.

The address and telephone number for the principal executive offices of the Company are: 818 Washington Street, Wilmington, Delaware 19801; (302) 429-8554 or (800) 526-5315. The address and telephone number for the principal executive offices of ISP Chemicals are: Route 95 Industrial Area, P. O. Box 37, Calvert City, Kentucky 42029; (502) 395-4165. The address and telephone number for the principal executive offices of ISP Technologies are: State Highway 146 and Industrial Road, Texas City, Texas 77590; (409) 945-3411.

Financial information concerning the Company's industry segments and foreign and domestic operations required by Item 1 is included in Notes 12, 13 and 14 to the Consolidated Financial Statements of the Company contained in the Annual Report.

Specialty Derivative Chemicals

Products and Markets. The Company manufactures more than 200 specialty derivative chemicals having numerous applications in consumer and industrial products. Most of the Company's specialty derivative chemicals are derived from acetylene. Specialty derivative chemicals consist of five main groups of products: vinyl ethers, polymers, solvents, intermediates and specialty preservatives.

Vinyl ether polymers are used in cosmetics and personal care products and pharmaceutical and health-related products, primarily in hair care products, dental care products and detergent formulations. Vinyl ether monomers and oligomers are used in coatings and inks for both consumer and industrial products.

Polyvinyl pyrrolidone polymers are used primarily in cosmetics and personal care products, pharmaceutical and health-related products and food and beverages, such as drug and vitamin tablet disintegrants; clarifiers and chill-hazing agents for beer, wine and fruit juices; microbiocidal products for human and veterinary applications; hair care products such as mousses, conditioners, gels and glazes; ingredients in water-resistant mascara, sunscreen and lipstick; film-formers in polishes for consumer and industrial applications and a dispersant in agricultural chemical formulations.

Solvents are sold to customers for use in agricultural chemicals, pharmaceuticals, lithography, wire enamel production, adhesives, plastics, electronic microchips and integrated circuits, lubricating oil extraction and gas purification applications. The Company's family of solvents includes N-methyl pyrrolidone, butyrolactone and tetrahydrofuran, certain of which are used by the Company as raw materials in the manufacture of polymers.

Intermediates are manufactured primarily for use by the Company as raw materials in manufacturing solvents, polymers and vinyl ethers. Some intermediates are also sold to customers for use in the manufacture of engineering plastics and elastomers, agricultural chemicals, oil production auxiliaries and other products.

Specialty preservatives are proprietary products that are marketed worldwide to the cosmetics and personal care industries. The Company sells a number of preservative products, including Germall 115, Germall II and Germaben II. Uses include baby preparations, eye makeup, facial makeup, after-shave and nail, bath, hair and skin preparations.

Marketing and Sales. The Company markets its specialty derivative chemicals through a worldwide marketing and sales force, consisting of approximately 250 employees. The Company conducts its marketing and domestic sales from offices strategically located throughout the United States. The Company markets all of its specialty derivative chemicals worldwide. The Company sells its products in 72 countries through 20 subsidiaries and 29 sales offices in Western and Eastern Europe, Canada, Latin America and the Asia-Pacific region. Services of local distributors are also used to reach markets that might otherwise be unavailable to the Company.

Raw Materials. The principal raw materials used in the manufacture of specialty derivative chemicals are acetylene, formaldehyde, methanol and methylamines. Most of these raw materials are obtained from outside sources pursuant to long-term supply agreements. Acetylene, a significant raw material used in the production of most specialty derivative chemicals, is obtained by the Company for domestic use from two unaffiliated suppliers pursuant to long-term supply contracts. At the Company's Texas City and Seadrift, Texas plants, acetylene is supplied by a large multinational company that generates this raw material as a by-product from ethylene manufacture. At the Company's Calvert City, Kentucky facility, acetylene is supplied by a company that generates it from calcium carbide. The acetylene utilized by GAF-Hüls is produced by Hüls, using a proprietary electric arc process, sourced from various hydrocarbon feedstocks. The Company believes that this diversity of supply sources, using a number of production technologies (ethylene by-product, calcium carbide and the electric arc), tends to create a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, no assurances can be made that the Company would be able to obtain as much acetylene from other sources as would be necessary to meet its supply requirements. The Company has not experienced an interruption of its acetylene supply that has had a material adverse effect on its sales of specialty derivative chemicals.

With regard to raw materials other than acetylene, the Company believes that in the event of a supply interruption it could obtain adequate supplies from alternate sources. Raw materials derived from petroleum or natural gas are used in many of the Company's manufacturing processes and, consequently, the price and availability of petroleum and natural gas could be material to the Company's operations. During the latter part of 1990, crude oil prices increased due to the crisis in the Middle East. Despite such increases, the Company continued to obtain an adequate supply of petroleum-based raw materials as a result of spot market purchases from a number of suppliers. During 1991, the Company obtained and expects to continue to obtain adequate supplies of these products at reasonable costs, although there can be no assurance that it will do so.

Mineral Products

Products and Markets. The Company manufactures mineral products consisting of ceramic colored roofing granules, which are produced from rock deposits that are mined and ground at the Company's quarries and colored using a ceramic chemical coating process. The Company's mineral roofing granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection and increased weight. The Company is one of only two major suppliers of colored roofing granules in North America, the other being Minnesota Mining & Manufacturing Company. The Company also markets granule by-products for use as mineral filler for asphalt roofing products and the construction of clay tennis courts.

The Company estimates that more than 80% of the asphalt shingles currently produced by the roofing industry are sold for the reroofing/replacement market, in which demand is driven not by the pace of new home construction but by the needs of homeowners to replace existing roofs. The Company estimates that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of the Company's colored mineral granules have benefited from a trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which require, on average, approximately 40% more granules than traditional three-tab, lightweight roofing shingles.

Marketing and Sales. The Company's mineral products are sold to asphalt roofing manufacturers throughout the United States. GAF Building Materials Corporation ("GAF Building Materials"), an affiliate of the Company, purchases 100% of its colored roofing granule requirements from the Company (except for the requirements of its California roofing plant) under a contract that expires December 31, 1993. These purchases constitute approximately 37% of the Company's mineral products net sales. See "Certain Transactions — Sales to Affiliates."

Raw Materials. The Company owns rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion-resistance, non-staining characteristics and the ability to absorb pigments. The Company owns three quarries, each with proven reserves, based on current production levels, of more than 20 years. The Company has in recent years purchased land adjacent to its quarries for potential additional reserves.

Filter Products and Advanced Materials

The Company manufactures filter products, consisting of pressure filter vessels, filter bags, filter systems, cartridges and cartridge housings. These filter products are designed for the treatment of process liquids in the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries.

While the primary market for the Company's filter products has traditionally been in Europe, three years ago the Company began to expand its market penetration in the Asia-Pacific region. The Company in 1990 entered the United States market, establishing domestic distribution facilities in Michigan.

The Company manufactures a variety of advanced materials, consisting of high-purity carbonyl iron products, sold under the Company's trademark Micropowder™, used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food industries. It also produces a grade of iron product, sold under the trademark Ferronyl®, for use as a vitamin supplement.

The primary market for the Company's advanced materials is the domestic defense industry, which employs these products in a variety of coating systems for stealth purposes in aircraft and naval ships.

Competition

The Company believes that, except for butanediol and tetrahydrofuran, it is either the first or second largest seller worldwide of most of its specialty derivative chemicals. The Company's major competitor is BASF Aktiengesellschaft ("BASF"). Butanediol, which the Company produces primarily for use as a raw material, is also manufactured by a limited number of companies in the United States, Germany and Japan.

Tetrahydrofuran is manufactured by a number of companies throughout the world. While there are companies, other than the Company and BASF, that manufacture a limited number of the Company's other specialty derivative chemicals, the market position of these companies is much smaller than that of the Company. In addition to the Company's competition as noted above, there are other companies that produce substitutable products for a number of the Company's specialty derivative chemicals.

With regard to its mineral products, the Company has only one major and one smaller competitor. With respect to filter products, the Company competes with a number of companies worldwide. With respect to advanced materials, the Company is the sole domestic manufacturer of carbonyl iron powders and one of only two manufacturers worldwide.

Research and Development.

The Company's research and development department, consisting of approximately 200 persons dedicated principally to specialty derivative chemicals, is located primarily at the Company's worldwide technical center and laboratories in Wayne, New Jersey. Additional research and development is conducted at the Company's Calvert City, Kentucky and Texas City, Texas plant sites, Chatham, New Jersey facility and laboratories in the United Kingdom and Singapore.

The Company's mineral products research and development facility, together with its recently opened customer design and color center, is located at Hagerstown, Maryland.

The Company's research and development expenses are presented in Note 3 to the Consolidated Financial Statements of the Company contained in the Annual Report.

Patents and Trademarks

The Company owns approximately 413 domestic and 216 foreign patents and owns or is the exclusive licensee of approximately 60 domestic and 850 foreign trademark registrations related to the business of the Company. The Company does not believe that any of its patents, patent applications or trademarks is material to its business or operations.

Environmental Compliance

Since 1970, a wide variety of federal, state and local environmental laws and regulations have been adopted, and environmental laws and regulations continue to be adopted and amended. By reason of the nature of the operations of the Company and its predecessor and certain of the substances that are, or have been used, produced or discharged by their plants or at other locations, the Company is affected by these laws and regulations.

The Clean Air Act, as amended, the Clean Water Act, as amended, the Safe Drinking Water Act, as amended, and similar state or local counterparts of these Federal laws regulate air and water emissions or discharges into the environment. The Resource Conservation and Recovery Act, as amended, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") and the Superfund Amendments and Reauthorization Act of 1986, among others, address the generation, storage, treatment, transportation and disposal of solid waste, and releases, and preparedness in the event of releases, of hazardous substances to the environment. The Company's current operations require compliance with the above specified laws as well as the Toxic Substances Control Act and related laws designed to assess the risk to health or the environment at early developmental stages of new products. In addition, the Company is subject to workplace safety and health standards regulated by the Occupational Safety and Health Act and laws already adopted or proposed in various states that require that industrial property be environmentally sound if operations cease or the property is transferred or sold. See "— Legal Proceedings."

The Company believes that compliance with environmental control requirements as presently interpreted and enforced will not materially affect its capital expenditures, business or financial position. See Note 16 of the Notes to the Consolidated Financial Statements in the Company's Annual Report.

Employees

At December 31, 1991, the Company employed approximately 2,265 people worldwide. At that date, approximately 750 employees in the United States and Canada were subject to eight union contracts, which are effective in most cases for two- or three-year periods. Of these contracts, one expired and was renegotiated in 1991. The Company is currently negotiating a contract with a new bargaining unit that was recently certified. The Company believes that its relations with its employees and their unions are satisfactory.

The Company has in effect various benefit plans, which include a non-qualified retirement plan for a group of executives, capital accumulation plans for its salaried employees and certain of its hourly employees, a flexible benefit plan for its salaried employees, a non-contributory defined benefit retirement plan for its hourly employees, group insurance agreements providing life, accidental death, disability, hospital, surgical, medical and dental coverage. In addition, the Company has contracted with various health maintenance organizations to provide medical benefits and a non-qualified retirement plan for a group of executives. The Company and, in many cases, its employees contribute to the cost of these plans.

Recent Events

In March 1992, ISP Chemicals and ISP Technologies (the "Issuers") issued \$200 million of 9% Senior Notes (the "Notes"), due 1999. The Notes are guaranteed by the Company and all of the additional Registrants (the "Subsidiary Guarantors"). The net proceeds from the issuance of the Notes were paid as dividends by the Issuers to the Company and used by the Company to repay a portion of an intercompany term note to G Industries, and by G Industries to repay a portion of the term loan under a Credit Agreement dated September 17, 1990 among G Industries, the lenders party thereto, The Bank of New York, The Bank of Nova Scotia, Banque Paribas and The Chase Manhattan Bank (National Association), as Co-Agents and co-arrangers, and The Chase Manhattan Bank (National Association), as administrative agent (the "Credit Agreement").

The Notes are general, unsecured obligations of the Issuers. Upon issuance of the Notes, the Credit Agreement was amended, with the Issuers assuming G Industries' obligations under the Credit Agreement, including the \$105 million term loan and a combined \$200 million revolving credit/letter of credit facility (except for obligations related to letters of credit issued on behalf of Subsidiaries of G Industries other than the Company and its subsidiaries, which are limited to \$40 million). In addition, all liens on assets of the Company, the Issuers and the Subsidiary Guarantors securing the indebtedness under the Credit Agreement were released, with the result that the remaining bank indebtedness and the Notes rank *pari passu*.

Item 2. Properties

The Company's administrative subsidiary maintains its corporate headquarters and principal research and development laboratories at a 100-acre campus-like, office and research park owned by a subsidiary of the Company at 1361 Alps Road, Wayne, New Jersey 07470. The Company maintains its principal office at 818 Washington Street, Wilmington, Delaware 19801.

The Company's specialty derivative chemical products are manufactured at four plants in the United States and at the GAF-Hüls plant in Marl, Germany. The Company's mineral granule products are currently produced at three plants in the United States, each of which performs mining, milling, screening and coloring operations. The Company's filter products are manufactured at four plants outside of the United States. Advanced materials are manufactured at one plant in the United States.

The Company's principal domestic and foreign real properties are either owned by, or leased to, the Company's subsidiaries as described below. Unless otherwise indicated, the properties are owned in fee. The Company's domestic and international sales offices and warehouses generally are leased under relatively short-term leases.

<u>Location</u>	<u>Facility</u>	<u>Product Lines</u>
DOMESTIC		
Alabama		
Huntsville	Plant*	Advanced Materials
Kentucky		
Calvert City	Plant	Specialty Derivative Chemicals
Maryland		
Hagerstown	Research Center, Design Center, Sales Office	Mineral Products
Michigan		
Livonia	Warehouse, Distribution Center*	Filter Products
Missouri		
Annapolis	Plant, Quarry	Mineral Products
New Jersey		
Bound Brook	Sales Office*	Specialty Derivative Chemicals
Chatham	Plant, Sales Office*, Research Center	Specialty Derivative Chemicals
Wayne	Sales Office, Administrative Offices, Research Center	Specialty Derivative Chemicals Mineral Products Filter Products Advanced Materials
Pennsylvania		
Blue Ridge Summit	Plant, Quarry	Mineral Products
Texas		
Seadrift	Plant	Specialty Derivative Chemicals
Texas City	Plant	Specialty Derivative Chemicals
Wisconsin		
Pembine	Plant, Quarry	Mineral Products
INTERNATIONAL		
Belgium		
Sint-Niklaas	Plant, Sales Office, Distribution Center	Specialty Derivative Chemicals Filter Products
Brazil		
Sao Paulo	Plant*, Sales Office*, Distribution Center*	Specialty Derivative Chemicals Filter Products
Canada		
Mississauga, Ontario	Plant*, Sales Office*, Distribution Center*	Specialty Derivative Chemicals Filter Products
Great Britain		
Guildford	European Headquarters*, Research Center*	Specialty Derivative Chemicals
Singapore		
Southpoint	Sales Office*, Distribution Center*, Asia Pacific Headquarters*, Warehouse*	Specialty Derivative Chemicals Filter Products
Affiliate:		
GAF-Hüls Chemie GmbH Marl, Germany	Plant, Sales Office	Specialty Derivative Chemicals

* Leased Property

The Company believes that its plants and facilities, which are of varying ages and are of different construction types, have been satisfactorily maintained, are in good condition, are suitable for the Company's operations and generally provide sufficient capacity to meet the Company's production requirements. Each plant has adequate transportation facilities for both raw materials and finished products. In 1991, the Company invested \$34.4 million in new plant, property and equipment.

Item 3. Legal Proceedings

The Company has certain liabilities under New Jersey statutes and regulations relating to the closing of its plant in Linden, New Jersey (the "Linden Site"). In June 1989 and June 1990, the Company entered into two Administrative Consent Orders (the "ACOs") with the New Jersey Department of Environmental Protection and Energy ("NJDEPE") under the New Jersey Spill Compensation and Control Act, among other New Jersey laws, which establish deadlines for the Company to (i) comply with surface water discharge

standards and (ii) develop a remediation plan for the Linden Site. Pursuant to the latter ACO, the Company posted letters of credit aggregating \$7.5 million to cover the anticipated costs of remediation; however, there can be no assurance as to the actual costs that will be incurred in connection with such remediation.

The Company is a party to a variety of proceedings and lawsuits involving environmental matters, including being named as defendant, respondent or a potentially responsible party, together with other companies, under CERCLA and similar state laws, in which recovery is sought for the cost of cleanup of contaminated waste disposal sites. These proceedings and lawsuits are, for the most part, in the early stages and, due to the practices of waste disposal haulers and disposal facilities prior to adoption and implementation of the environmental laws and regulations, evidence is difficult to obtain or evaluate.

The Company is seeking dismissal of a number of the lawsuits and proceedings on the ground that there appears to be no substantial evidence of the Company's responsibility for any hazardous waste present at certain of the sites in question. At each site, the Company anticipates, although there can be no assurance, that liability, if any, will eventually be apportioned among the companies found to be responsible for the presence of hazardous waste at the site. Based on facts presently available, it is not possible to predict the eventual cost to the Company in these matters. In the opinion of management, these matters should be resolved gradually over a period of years for amounts that in the aggregate will not be material to the business or financial position of the Company.

The Company has an agreement with its comprehensive general liability insurers to cover, under a reservation of rights, the majority of the Company's liability and expenses in connection with these administrative proceedings and lawsuits. Pursuant to the agreement, the insurers pay costs of the Company in defending these administrative proceedings and lawsuits and reimburse the Company for more than a majority of its liabilities. Each insurer who is a party to this agreement is rated at least "A" by a leading independent insurance rating service, as a result of which the Company believes that the insurers have the ability to make payments pursuant to the agreement, although no assurances can be given. The Company also believes that the amount of insurance available under the policies pursuant to which the expenses and liabilities are being paid will be sufficient to cover the Company's expenses and that portion of the Company's estimated liability agreed to be paid by such insurers. In addition, the Company has established a reserve to cover costs in connection with these administrative proceedings and lawsuits.

The Texas Water Commission ("TWC") has filed an amended administrative enforcement petition with respect to the Company's Texas City, Texas manufacturing facility seeking a revised civil penalty of \$601,200 for alleged violations of TWC financial assurance requirements, a failure to complete closure of regulated waste units in accordance with closure plan schedules and improper maintenance of two waste container storage areas. The Company is currently contesting the alleged violations and, although it is not possible to determine what the ultimate amount of the civil penalty, if any, will be, based on on-going discussions with the TWC, the Company believes that it will be lower than the amount sought in the enforcement petition which is based in part upon the length of time that the violations have been pending.

On March 8, 1990, GAF and a former GAF officer, without admitting or denying the allegations in a proposed complaint by the Securities and Exchange Commission, consented to the entry of judgments enjoining GAF and its subsidiaries (which include the Company) and their respective directors and officers from violating Sections 10(b), 13(b)(2)(A) and 13(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Rules 10b-5 and 13b2-1 thereunder, and from aiding and abetting violations of Sections 13(b)(2)(A) and 13(d)(2) of the Exchange Act and Rule 13d-2 thereunder. GAF also paid a fine of \$1.25 million in connection with the judgments. The proposed complaint arose out of allegations that defendants attempted to increase the price of Union Carbide Corporation ("Union Carbide") common stock on October 29 and 30, 1986, in connection with the disposition by GAF of a portion of its Union Carbide stock position.

For information regarding asbestos litigation against GAF, see Note 16 to the Consolidated Financial Statements contained in the Company's Annual Report incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 1991.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The following information pertains to the Company's common stock, which is traded on the New York Stock Exchange. As of March 13, 1992, the common stock price was \$10.75, and there were 216 holders of record of the Company's outstanding common stock. The price range of the common stock in 1991, on which trading was initiated on June 25, 1991, was as follows:

	<u>High</u>	<u>Low</u>
Second Quarter	\$15.875	\$15.50
Third Quarter	18.00	14.00
Fourth Quarter	16.125	11.50

The Company does not currently pay any dividends. The declaration and payment of dividends is at the discretion of the Board of Directors of the Company. The ability to pay dividends is currently limited by a covenant in the Company's bank credit agreement (the "Credit Agreement") which provides that the Company may not pay dividends (i) that exceed 10% of the Company's consolidated net income or (ii) upon the occurrence and during the continuance of a default under the Credit Agreement.

The timing and amount of dividends paid, if any, will be dependent upon, among other things, the Company's results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will declare and pay dividends or as to the amounts thereof.

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Item 9. Disagreements on Accounting and Financial Disclosure

None.

PART III

Item 10. Executive Officers and Directors

The following table sets forth the name, age and position with the Company, ISP Chemicals or ISP Technologies for each person who is an executive officer or director of the Company, ISP Chemicals or ISP Technologies.

<u>Name and Positions Held(1)</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
Samuel J. Heyman(2) Director, Chairman and Chief Executive Officer, International Specialty Products Inc.	53	Mr. Heyman has been Chairman and Chief Executive Officer of the Company since its formation and Chairman and Chief Executive Officer of ISP Chemicals and ISP Technologies since November 1991. Mr. Heyman has been Chairman and Chief Executive Officer of GAF since April 1989, prior to which he held the same position with the predecessor to GAF from December 1983 to April 1989, and was Chairman of GCC and its predecessor from July 1984 to January 1991. He is also the Chief Executive Officer, Manager and General Partner of a number of closely held real estate development companies and partnerships.
Thomas C. Bohrer Director, President and Chief Operating Officer, International Specialty Products Inc.	52	Mr. Bohrer has been a director, President and Chief Operating Officer of the Company and Chief Operating Officer of ISP Chemicals and ISP Technologies since November 1991. From July 1989 to November 1991 he was Vice President and Group President, Advanced Materials and a director of Hoechst Celanese Corporation ("HCC"), a diversified chemicals and fibers manufacturing company. From January to July 1989 he was President, Engineering Plastics Group, of HCC and from April 1988 to January 1989 he was President, Specialty Products Group, of HCC. Mr. Bohrer was Vice President and General Manager Worldwide Engineering Resins (Division) of Celanese Corporation from 1984 to 1987.
Carl R. Eckardt Director and Executive Vice President, Corporate Development, International Specialty Products Inc.	61	Mr. Eckardt has been a director and Executive Vice President, Corporate Development of the Company since its formation and Executive Vice President of ISP Chemicals and ISP Technologies since November 1991. He has held the same positions with GAF since April 1989 and with the Predecessor Parent Company from January 1987 to April 1989. Mr. Eckardt was President of GCC and the predecessor to GAF's chemicals division from 1985 to 1987. Mr. Eckardt was a Senior Vice President, Worldwide Chemicals and Senior Vice President, International Chemicals of the predecessor to GAF from 1982 to 1985 and 1981 to 1982, respectively. Mr. Eckardt joined the predecessor to GAF in 1974.
David I. Barton Senior Vice President and General Manager, Specialty Derivative Chemicals, International Specialty Products Inc.	53	Mr. Barton has been Senior Vice President and General Manager, Specialty Derivative Chemicals of the Company since its formation, prior to which he held the same position with GCC from March 1988. He has been President and a director of ISP Technologies since June 1991. From 1985 to 1988 he was Executive Vice President of Reichhold Chemicals Inc., a specialty chemicals company. From 1965 to 1985 he served in a variety of management positions at Loctite Corporation, a manufacturer of specialty adhesives/sealants, including as President of New Business Development Group and President and Chief Executive Officer of Industrial Products Group.

<u>Name and Positions Held(1)</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
Stephen A. Block(2) Director, Senior Vice President, General Counsel and Secretary, International Specialty Products Inc.	47	Mr. Block has been a director, Senior Vice President, General Counsel and Secretary of the Company and ISP Chemicals and ISP Technologies since their formation. He has held the same positions with GAF since October 1990. Mr. Block was Vice President and Deputy General Counsel of GAF from April 1989 to October 1990, prior to which he held the same position with the predecessor to GAF Parent Company from April 1988 to April 1989. From May 1987 to April 1988 he was Deputy General Counsel of the predecessor to GAF. From 1974 to 1987 he served in various management and legal positions with Celanese Corporation.
James J. Strupp Senior Vice President, Human Resources, International Specialty Products Inc.	48	Mr. Strupp has been Senior Vice President, Human Resources since May 1991 and Senior Vice President-Human Resources of ISP Chemicals and ISP Technologies since June 1991. From 1987 to May 1991 he was Executive Vice President and Partner with Bastion Industries. Mr. Strupp was Vice President, Human Resources of the predecessor to GAF from 1984 to 1987.
Harrison J. Goldin(2)(3) Director, International Specialty Products Inc.	56	Mr. Goldin has been a director of the Company since its formation. Mr. Goldin has been the general partner of Goldin Associates, L.P., a consulting firm, since January 1990. From 1974 to 1989, Mr. Goldin was the Comptroller of the City of New York and was a New York State Senator from 1966 to 1973.
Charles M. Diker(3) Director, International Specialty Products Inc.	57	Mr. Diker has been a director of the Company since February 1992. He has been a limited partner of Weiss, Peck & Greer, an investment management firm, since 1975. He has been Chairman of the Board of Cantel Industries Inc., a manufacturer of office furniture and medical equipment since 1986, and a director of BeautiControl Cosmetics and Neutrogena Corporation, a cosmetics company, since 1987 and 1976, respectively.
Richard D. Borzelli Director and President, ISP Chemicals Inc.	46	Mr. Borzelli has been President and a director of ISP Chemicals since June 1991 and Vice President, Manufacturing of ISP Technologies since its formation, prior to which he held the same position with GCC from August 1988. From May 1982 to March 1988, he was Director of Operations, Process Chemicals Division, Henkel Corp., formerly Occidental Chemicals Corp., formerly Diamond Shamrock Corp.

- (1) Under the By-laws of the Company, ISP Chemicals and ISP Technologies, each director and executive officer continues in office until the respective company's next annual meeting of stockholders or until his successor is elected and qualified.
- (2) Mr. Heyman, Mr. Block and Mr. Goldin are members of the Compensation and Pension Committee of the Company's Board of Directors.
- (3) Mr. Goldin and Mr. Diker are members of the Audit Committee of the Company's Board of Directors.

Item 11. Executive Compensation

Cash Compensation

The following table sets forth the cash compensation of the five most highly compensated executive officers of the Company, ISP Chemicals and ISP Technologies and all executive officers as a group for services rendered during fiscal year 1991.

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash Compensation(1)		
		Salary	Bonus(2)	Other(3)
Samuel J. Heyman	Chairman of the Board and Chief Executive Officer	\$ 407,083	\$225,000	\$ 9,019
Irwin Engelman(4)	Executive Vice President and Chief Financial Officer	282,500	141,250	21,725
Heinn F. Tomfohrde, III(5)	President and Chief Operating Officer	255,103	0	40,697
Carl R. Eckardt	Executive Vice President — Corporate Development	224,583	165,000	4,859
Stephen A. Block	Senior Vice President, General Counsel and Secretary	191,666	115,000	3,979
All Executive Officers as a Group (9 individuals)		\$1,808,120	\$871,800	\$89,356

- (1) With respect to Messrs. Heyman, Engelman, Eckardt, Block and one other executive officer included in "All Executive Officers as a Group," includes compensation paid for services rendered to GAF and certain of its other subsidiaries as well as to the Company. Although these executive officers devote the majority of their business time to the affairs of the Company and its subsidiaries, they also provide services to GAF and its other subsidiaries, for which the Company receives a management fee. See "Certain Transactions — Management Agreement."
- (2) Amounts shown reflect Executive Incentive Compensation attributable to 1991 and paid in 1992 pursuant to the Incentive Program described below except that the amount shown for All Executive Officers as a Group also includes a guaranteed award required by the terms of an executive officer's offer of employment. See "Agreement with an Executive Officer," below. Payments made pursuant to the Incentive Program attributable to 1990 but paid in 1991 are as follows: Mr. Heyman — \$0; Mr. Engelman — \$103,125; Mr. Tomfohrde — \$85,000; Mr. Eckardt — \$80,000; Mr. Block — \$70,000; and all executive officers as a group (9 individuals) — \$412,125.
- (3) Includes the Company's cash contributions to the GAF Capital Accumulation Plan, the cost to the Company of special life insurance provided to the Company's officers and, payments pursuant to a separation agreement with an officer whose employment with the Company terminated in November 1991.
- (4) Mr. Engelman resigned as Executive Vice President and Chief Financial Officer of the Company effective January 31, 1992.
- (5) Mr. Tomfohrde resigned as President and Chief Operating Officer of the Company effective November 20, 1991.

Compensation Pursuant to Plans

GAF and the Company maintain certain compensation plans, programs and arrangements for executive officers and key employees. Set forth below is a brief description of each such plan under which compensation or other benefits were paid during 1991 or are proposed to be paid in the future to the persons identified in the preceding table.

Executive Incentive Compensation Program. The Company has an Executive Incentive Compensation Program (the "Incentive Program") which covers approximately 200 officers, managers and other professional

employees of the Company and its subsidiaries. Under the Incentive Program, the Board of Directors of the Company, in its discretion, makes cash compensation awards to key employees from an incentive compensation fund, which is established annually by the Board of Directors based upon the Company's financial performance and other factors. The criteria then used to determine awards from the incentive compensation fund include the individual performance of the employee measured against management-approved objectives, as well as the profit performance of the employee's business unit or department, as applicable.

1991 Incentive Plan for Key Employees. The 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of the Company's Common Stock. Options may be either options intended to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code (the "Code"), or "nonqualified" stock options for purposes of the Code. The exercise price of options granted must be at least equal to the Fair Market Value (as defined in the 1991 Incentive Plan) of such shares on the date of grant. With respect to any incentive stock option granted to an Over-Ten-Percent Shareholder (as defined in the 1991 Incentive Plan) who owns stock possessing more than 10% of the voting rights of the Company's outstanding capital stock on the date of grant, the exercise price of the option must be at least equal to 110% of the Fair Market Value on the date of grant.

The term of each option is five years and 60 days (five years for certain incentive stock options granted to Over-Ten-Percent Shareholders). Options may not be exercised during the first year after the date of grant. Thereafter, except as noted below, each option becomes exercisable as to 20%, 40%, 60%, 80% and 100% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant, respectively, provided that with respect to options granted to an Over-Ten-Percent Shareholder, the option will become exercisable as to 100% of shares subject thereto four years and ten months from the date of grant.

Pursuant to the terms of the agreement with Thomas C. Bohrer in connection with Mr. Bohrer's joining the Company as President and Chief Operating Officer, the Company has agreed to seek the approval of its stockholders at the 1992 Annual Meeting to amend the 1991 Incentive Plan to permit the Compensation and Pension Committee of the Board of Directors, on a case by case basis, to allow vested options to be exercisable for up to nine years from the date of grant and to permit the Board of Directors, on a case by case basis, to vest unvested options in the event of a "Change in Control." A "Change in Control" of the Company is deemed to have occurred if the executive officers of the Company as of June 28, 1991, either directly or through one of their affiliates, cease to have, directly or indirectly, at least 20% of the voting power of the Company. GCC has committed to vote its shares of the Company's common stock in favor of the amendments to the 1991 Incentive Plan, thereby ensuring its adoption. (See "— Agreement with an Executive Officer.")

The selection of eligible employees to receive options and awards under the 1991 Incentive Plan is made by the Compensation and Pension Committee. Awards of options are based on the Compensation and Pension Committee's evaluation of an employee's past or potential contribution to the Company or its subsidiaries and no other consideration for the granting or extension of options is received by the Company. The Compensation and Pension Committee determines the number of shares as to which options are to be granted to any employee, the date of the option grant, whether the option is intended to be an incentive stock option or a nonqualified stock option and other terms governing the options. There is no stated maximum or minimum number of options or shares which may be issued to any one eligible person or group of persons. However, the aggregate Fair Market Value of the Common Stock (determined at the date of the option grant) for which any employee may be granted incentive stock options in any calendar year may not exceed \$100,000, plus certain carryover allowances from the previous three years permitted under the Code.

Holders of stock options granted under the 1991 Incentive Plan have certain limited stock appreciation rights ("Limited Rights") which are in addition to the stock appreciation rights already included under the 1991 Incentive Plan. These Limited Rights apply only in the event of a tender or exchange offer for the Company's Common Stock by a bidder other than the Company, and entitle the option holder to surrender any then exercisable option or portion thereof and receive either cash or the Company's Common Stock, as determined by the Compensation and Pension Committee, equal to the difference between the aggregate Fair Market Value of the shares subject to options on the date of surrender (as determined in accordance with the Limited Rights) and the aggregate option price.

Notwithstanding any other provision of the 1991 Incentive Plan, the Compensation and Pension Committee may elect to pay any exercising option holder, in lieu of issuing shares of the Company's Common Stock, an amount equal to the difference between the aggregate Fair Market Value of the shares subject to the option sought to be exercised and the aggregate option price. Such amount shall be paid in cash or any combination of cash and Common Stock at the election of the Compensation and Pension Committee.

The 1991 Incentive Plan was adopted in June 1991. No options have been granted to persons named in the Compensation Table, whose equity in the Company is primarily represented by their ownership of the capital stock of GAF, a privately-held company. See "Security Ownership of Certain Beneficial Owners and Management — Note 2". Nonqualified stock options on 110,000 shares and 10,000 shares, each at an option price of \$12.25 per share, have, however, been granted to Mr. Bohrer and one other executive officer, respectively, who do not own any capital stock of GAF. Approval by the Compensation and Pension Committee of the grant of Mr. Bohrer's options also includes an agreement by the Compensation and Pension Committee that, on approval by stockholders of the amendments to the 1991 Incentive Plan described above, Mr. Bohrer will be entitled to the benefit of both such amendments with respect to such options. In total, non-qualified stock options on 836,948 shares at an option price of \$12.25 per share and 61,560 shares at an option price of \$14.00 per share have been granted to all employees other than executive officers. The closing market price of the Company's Common Stock on March 13, 1992 was \$10.75 per share.

Equity Appreciation Plan. As of July 15, 1991, GAF terminated a compensation plan (the "Equity Appreciation Plan") which provided for the granting of "Appreciation Units" to certain employees. Under the terms of the Equity Appreciation Plan, Appreciation Units had no cash value when granted, but increased or decreased in value based on changes in the "book value" (as defined in the Equity Appreciation Plan) of GAF's common stock.

Upon the termination of the Equity Appreciation Plan, grantees received payment in respect of their vested Appreciation Units. On each anniversary date of the grant of a grantee's Appreciation Units, and provided that on such anniversary date the grantee is an active employee, the grantee will be paid in cash an amount equal to 20% of his or her remaining Appreciation Units until payment has been made for 100% of that grantee's Appreciation Units.

Mr. Engelman was the only executive officer of the Company to have been granted Appreciation Units. As of the date of his resignation, he was vested with respect to 20% of such Appreciation Units. Notwithstanding the payments made and to be made to other grantees as aforesaid, Mr. Engelman was not entitled to receive any payments in respect of his Appreciation Units until his employment with the Company terminated, at which time he became entitled to receive a payment of \$303,117 in respect of the 20% of such Appreciation Units which had vested. The Company is required to make such payment on or before January 31, 1993.

Capital Accumulation Plan. The GAF Capital Accumulation Plan ("GAFCAP") for salaried employees was adopted by the Company to encourage employees to accumulate funds for retirement.

GAFCAP is a profit sharing retirement plan which contains a salary reduction arrangement which complies with Section 401(k) of the Code. An employee becomes eligible to participate in GAFCAP commencing on the first day of the month after he or she has completed six months of service. Pursuant to GAFCAP, each participant may elect to reduce his or her compensation by up to 14% (thereby excluding from his or her income for federal income tax purposes the amount of such reduction) and to have the Company contribute such amount to GAFCAP on his or her behalf ("salary reduction contribution"). A participant also may elect to make non-deductible (for federal income tax purposes) voluntary contributions to GAFCAP in an amount not to exceed 10% of his or her compensation. The Company will contribute an additional amount equal to 3% of a participant's compensation and will match two-thirds of a participant's total contribution up to 4% of a participant's compensation, except that it will not match contributions that are not salary reduction contributions unless the participant has made the maximum salary reduction contribution. Distributions commence as soon as practicable after either the termination of employment or retirement, and a participant may elect to receive payment either (a) in monthly installments over a period equal to the participant's life expectancy or that of his or her spouse, if longer, or (b) in a lump sum. Executive officers

who participate in the Non-Qualified Retirement Plan are not entitled to have employer contributions made to their GAFCAP accounts, if any. Mr. Engelman was the only executive officer for whom employer contributions were made to his GAFCAP account in 1991. Mr. Bohrer will become eligible to have the Company make such contributions as of June 1, 1992.

Non-Qualified Retirement Plan. GAF has a non-qualified retirement plan for the benefit of key employees of GAF and its subsidiaries, including the Company and its subsidiaries (the "Retirement Plan"). The benefit payable under the Retirement Plan, which vests in accordance with a 10-year schedule, consists of an annual payment commencing at age 65 equal to 25% of a covered employee's last full year's salary. The benefit continues for the longer of 15 years or the joint lifetimes of the employee and his or her spouse. If a covered employee dies while employed by GAF or a subsidiary, including the Company, a death benefit of 36% of the employee's annual income at the date of death is payable for a term of 15 years to the employee's beneficiary. Employees who participate in the Retirement Plan are not entitled to have employer contributions made to their accounts, if any, under GAFCAP.

No new participants have been admitted to the Retirement Plan since January 1989 and it is not anticipated that any new participants will be admitted hereafter. The amount of annual vested benefits to which each executive officer of the Company was entitled at the end of 1991 was as follows: Mr. Heyman — \$58,200; Mr. Tomfohrde — \$70,063; Mr. Eckardt — \$28,200; Mr. Block — \$18,419; all executive officers as a group (7 individuals) — \$204,684.

Severance Policy

The Company's basic severance policy for salaried employees of the Company and its subsidiaries provides for payments to employees based upon the age and length of service of the employee at the time of termination. This policy does not apply to employees who are dismissed for cause. The Company provides executive officers with the greater of a severance payment under the basic policy or six months' salary. Pursuant to the terms of the basic policy, the only executive officers of the Company who currently would be entitled to severance payments in excess of \$60,000 are Samuel J. Heyman and Carl R. Eckardt, who would be entitled to severance payments of \$161,667 and \$107,708, respectively. Pursuant to the six months' salary practice, as of March 13, 1992, the Company's executive officers, other than Mr. Bohrer, would be entitled to receive the following severance payments: Mr. Heyman — \$242,500; Mr. Eckardt — \$117,500; Mr. Block — \$105,000; and all executive officers as a group (6 individuals) — \$707,113. For a description of Mr. Bohrer's severance arrangement, see "— Agreement with an Executive Officer."

Life Insurance

Salaried employees of the Company and its subsidiaries are eligible to enroll on a contributory basis in a benefits package providing generally for term life insurance equal to up to two times current annual base salary and monthly long-term disability benefits of up to 60% of current annual base salary. In addition, salaried employees receive life insurance coverage equal to their current annual base salary. All elected officers receive accidental death and dismemberment and long-term disability coverages on a non-contributory basis; they are also entitled to receive group term life insurance coverage up to four times current annual base salary. The cost to the Company of such life insurance coverage for all executive officers is included in the Executive Compensation Table.

Personal Benefits

In addition to the life insurance benefits described above, the Company also provides certain personal benefits (principally leased automobiles) to their executive officers that are difficult to quantify in terms of business or personal use. The Company has concluded, however, after reasonable inquiry, that the aggregate amounts attributable to such personal benefits in 1991 did not exceed the lesser of \$25,000 or 10% of total cash compensation for each person named in the Cash Compensation Table above, as to all executive officers of the Company as a group (eight individuals), the lesser of \$25,000 times the number of persons in the group or 10% of the total cash compensation for the group.

Agreement with an Executive Officer

The Company entered into an agreement (the "Offer Agreement") with Thomas C. Bohrer in connection with Mr. Bohrer's joining the Company as President and Chief Operating Officer. Pursuant to such agreement, the Company is paying Mr. Bohrer a salary of \$300,000 per year, subject to annual review. Mr. Bohrer is also entitled to receive executive incentive compensation pursuant to the Incentive Program described above, with guaranteed awards of (i) \$27,780 for 1991 (which has been paid) and (ii) \$250,000 for 1992, with an opportunity of up to 100% of base salary in 1992.

The Company has also agreed to pay Mr. Bohrer a pension of up to \$156,000 per year, with a 50% joint and survivor annuity. Mr. Bohrer has the right, which he has exercised, to convert the 50% joint and survivor annuity into a 100% annuity for his spouse, with an actuarial reduction in his pension. This pension will vest in four equal annual installments on November 8, 1994, 1995, 1996 and 1997, but becomes fully vested automatically (with payments beginning when Mr. Bohrer reaches age 55 or upon discharge, if later) if Mr. Bohrer is discharged other than for cause, dies, is disabled or leaves as a result of a "Change in Control" as defined in the proposed amendments to the 1991 Incentive Plan (see "— Compensation Pursuant to Plans — 1991 Incentive Plan for Key Employees") and if certain other conditions are met. If Mr. Bohrer is terminated without cause prior to age 55, he will continue to receive his then current salary until age 55, when the fully vested pension benefit will commence. The Company has also agreed to pay, both during Mr. Bohrer's employment and after employment for the remainder of his life and the life of his spouse, all deductibles and co-payments which he would otherwise have to pay under any Company medical/dental plans or under any applicable government insurance plan.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The Company

As of March 13, 1992, the Common Stock of the Company was beneficially owned as follows:

Name	Number of Shares Owned	%	Number of Shares Beneficially Owned	%
Stephen A. Block	500	*	500	*
Thomas C. Bohrer	1,000	*	1,500(1)	* (1)
Charles M. Diker	5,000	*	5,000	*
Carl R. Eckardt	1,000	*	1,000	*
Harrison J. Goldin	0	0	0	0
Samuel J. Heyman	925	*	80,500,925(2)	80.6(2)
GCC	80,500,000	80.6	80,500,000	80.6
All directors and executive officers of the Company as a group (8 persons)	8,525	*	80,508,525(3)	80.6(3)

* Less than 1%.

- (1) Includes 500 shares owned by Mr. Bohrer's wife with respect to which he disclaims beneficial ownership.
- (2) By virtue of Mr. Heyman's ownership of capital stock of GAF, having approximately 88% of the combined voting power thereof, the number of shares shown as being beneficially owned by Mr. Heyman includes 80,500,000 shares owned by GCC.
- (3) The number of shares shown as being owned by all directors and executive officers of the Company as a group attributes ownership of GCC's 80,500,000 shares to Mr. Heyman. See footnote 2 above. All of the other current executive officers of the Company, other than Mr. Bohrer and one other such officer, also own shares of capital stock of GAF which shares have, in the aggregate, approximately 2.7% of the combined voting power of GAF's capital stock. Such shares are generally held subject to certain vesting arrangements and GAF's right to acquire such shares from an executive officer upon his termination of employment with GAF and its subsidiaries.

ISP Chemicals and ISP Technologies

As of March 13, 1992, 100% of the common stock of each of ISP Chemicals and ISP Technologies was owned by the Company. By virtue of Mr. Heyman's ownership of a controlling interest in the Company (see footnote 1 to the table, above), he may be deemed to beneficially own 100% of the shares of ISP Chemicals and ISP Technologies.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is incorporated by reference to the Proxy Statement under the caption "Proposal No. 1 — Election of Directors — Certain Transactions."

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

The following documents are filed as part of this report:

(a) (1) Financial Statements:

Financial statements of the Company are incorporated by reference to the Company's Annual Report to Stockholders for the fiscal year ended December 31, 1991. See list on page [17] herein.

(a) (2) Financial Statement Schedules:

The following supplementary financial information is filed in this Form 10-K and should be read in conjunction with the financial statements in the Annual Report.

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Schedule IX — Short-Term Borrowings	S-8

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

(a) (3) Exhibits

- 3.1 — Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, registration number 33-40337 (the "Common Stock Registration Statement").
- 3.2 — By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement).
- 3.3 — Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1, registration number 33-44862 (the "Senior Note Registration Statement").
- 3.4 — By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the Senior Note Registration Statement).
- 3.5 — Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the Senior Note Registration Statement).
- 3.6 — By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the Senior Note Registration Statement).

- 4 — Revised Form of Indenture, dated as of March 1, 1992, among ISP Chemicals, ISP Technologies, the Company, the additional registrants and Nationsbank of North Carolina, N.A., as trustee (incorporated by reference to Exhibit 4 to the Senior Note Registration Statement).
- 10.1 — Amendment and Restatement, dated as of February 28, 1992, among ISP Chemicals, ISP Technologies, the Company, the additional registrants, G Industries, the financial institutions listed on the signature pages thereof, The Bank of New York, The Bank of Nova Scotia, Banque Paribas and The Chase Manhattan Bank (National Association), as Co-Agents and Co-Arrangers, and The Chase Manhattan Bank (National Association), as Administrative Agent, to the Credit Agreement, dated as of September 17, 1990 (without exhibits) (incorporated by reference to Exhibit 10.2 to the Senior Note Registration Statement).
- 10.5 — Form of Affiliate Borrowing Agreement between the Company and G Industries (incorporated by reference to Exhibit 10.7 to the Common Stock Registration Statement).
- 10.6 — Management Agreement among the Company, GAF, G-I Holdings, G Industries, Building Materials and Broadcasting (incorporated by reference to Exhibit 10.9 to the Common Stock Registration Statement).
- 10.7 — Form of Tax Sharing Agreement among the Company, the Issuers, the Subsidiary Guarantors, GAF and G Industries (incorporated by reference to Exhibit 10.10 to the Common Stock Registration Statement).
- 10.8 — Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to the Common Stock Registration Statement).
- 10.9 — Equity Appreciation Plan of GAF (incorporated by reference to Exhibit 10.12 to the Common Stock Registration Statement).
- 10.10 — Agreement dated January 1, 1991, between the Company and Building Materials (incorporated by reference to Exhibit 10.15 to the Common Stock Registration Statement).
- 10.11 — Form of 1991 Incentive Plan for Key Employees (incorporated by reference to Exhibit 10.15 to the Common Stock Registration Statement).
- 10.12 — Form of 1991 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.16 to the Common Stock Registration Statement).
- 10.13 — Agreement dated September 23, 1991 between the Company and Thomas C. Bohrer (incorporated by reference to Exhibit 10.16 to the Senior Note Registration Statement).
- 10.14 — Form of Contribution Agreement among ISP Chemicals, ISP Technologies, the Company and the additional registrants (incorporated by reference to Exhibit 10.17 to the Senior Note Registration Statement).
- 10.15 — Form of Maintenance Agreement between the Company and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the Senior Note Registration Statement).
- 10.16 — Form of Intercompany Term Note of the Company payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the Senior Note Registration Statement).
- 10.17 — Form of Intercompany Term Note of the Company payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the Senior Note Registration Statement).
- 10.18 — Form of Intercompany Revolving Note of the Company payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the Senior Note Registration Statement).
- 10.19 — Form of Intercompany Revolving Note of the Company payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the Senior Note Registration Statement).
- 22 — Subsidiaries of the Company. ISP Chemicals and ISP Technologies have no subsidiaries. **279**

(b) Reports on Form 8-K

No report on Form 8-K was filed with the Securities and Exchange Commission during the last quarter of 1991.

ARTHUR ANDERSEN

ARTHUR ANDERSEN & CO. SC

Arthur Andersen & Co.

101 Eisenhower Parkway
Roseland, New Jersey 07068
201 493 6100

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

TO INTERNATIONAL SPECIALTY PRODUCTS INC.:

We have audited in accordance with generally accepted auditing standards, the financial statements included in International Specialty Products Inc.'s annual report to stockholders and incorporated by reference in this Form 10-K, and have issued our report thereon dated March 3, 1992. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed in the index on page 18 of this Form 10-K are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.



Roseland, New Jersey
March 3, 1992

TO INTERNATIONAL SPECIALTY PRODUCTS INC. (PREDECESSOR COMPANY):

We have audited in accordance with generally accepted auditing standards, the financial statements included in International Specialty Products Inc.'s annual report to stockholders and incorporated by reference in this Form 10-K, and have issued our report thereon dated March 3, 1992 related to International Specialty Products Inc. (Predecessor Company). Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed in the index on page 18 of this Form 10-K are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.




Roseland, New Jersey
March 3, 1992


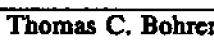
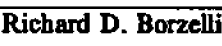

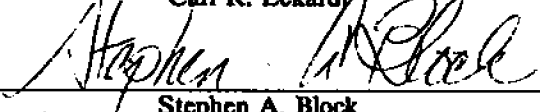
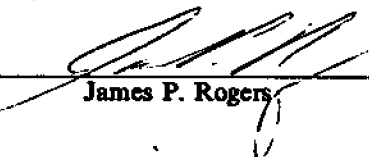

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Wayne, State of New Jersey, on March 27, 1992.

ISP CHEMICALS INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
 Thomas C. Bohrer	Chief Operating Officer
 Richard D. Borzelli	President and Director
 Carl R. Eckardt	Executive Vice President—Corporate Development
 Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
 James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
 Jonathan H. Stern	Principal Accounting Officer

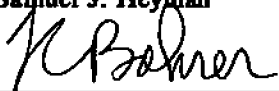

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ISP CHEMICALS INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
_____ Samuel J. Heyman  _____ Thomas C. Bohrer	Chairman of the Board of Directors and Chief Executive Officer
_____ Richard D. Borzelli	Chief Operating Officer
_____ Carl R. Eckardt	President and Director
_____ Stephen A. Block	Executive Vice President—Corporate Development
_____ James P. Rogers  _____ Jonathan H. Stern	Senior Vice President, General Counsel and Secretary; Director
	Vice President and Treasurer (Principal Financial Officer)
	Principal Accounting Officer

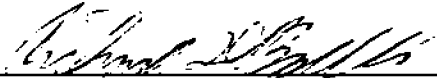
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ISP CHEMICALS INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary


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_____ Carl R. Eckardt	Executive Vice President—Corporate Development
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_____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer


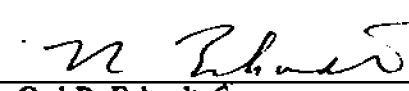
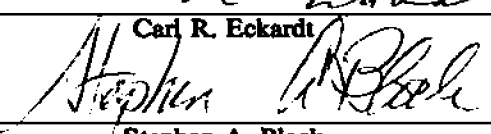
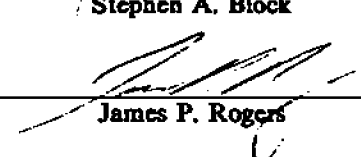
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ISP TECHNOLOGIES INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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<u>Signature</u>	<u>Title</u>
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_____ Thomas C. Bohrer	Chief Operating Officer
_____ David I. Barton	President and Director
 _____ Carl R. Eckardt	Executive Vice President—Corporate Development
 _____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
 _____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer

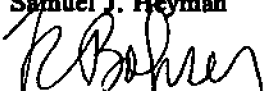




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ISP TECHNOLOGIES INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

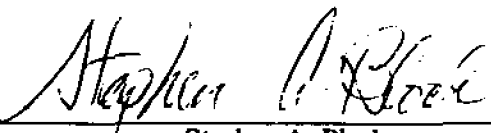
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<u>Signature</u>	<u>Title</u>
_____ Samuel J. Heyman 	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer 	Chief Operating Officer
_____ David I. Barton 	President and Director
_____ Carl R. Eckardt	Executive Vice President—Corporate Development
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
_____ James P. Rogers 	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern 	Principal Accounting Officer



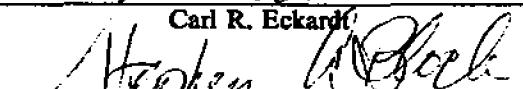

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INTERNATIONAL SPECIALTY PRODUCTS INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
Thomas C. Bohrer	President and Chief Operating Officer; Director
 Carl R. Eckardt	Executive Vice President—Corporate Development; Director
 Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
Harrison J. Goldin	Director
Charles M. Diker	Director
 James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
Jonathan H. Stern	Vice President and Controller (Principal Accounting Officer)

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INTERNATIONAL SPECIALTY PRODUCTS INC.

By: Stephen A. Block
*Senior Vice President,
General Counsel & Secretary*

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<u>Carl R. Eckardt</u>	Executive Vice President—Corporate Development; Director
<u>Stephen A. Block</u>	Senior Vice President, General Counsel and Secretary; Director
<u>Harrison J. Goldin</u>	Director
<u>Charles M. Diker</u>	Director
<u>James P. Rogers</u>	Vice President and Treasurer (Principal Financial Officer)
<u>Jonathan H. Stern</u>	Vice President and Controller (Principal Accounting Officer)

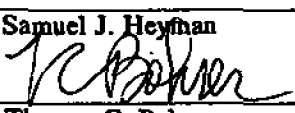
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INTERNATIONAL SPECIALTY PRODUCTS INC.

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Senior Vice President,
General Counsel & Secretary

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_____ Carl R. Eckardt	Executive Vice President—Corporate Development; Director
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
_____ Harrison J. Goldin	Director
_____ Charles M. Diker	Director
_____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Vice President and Controller (Principal Accounting Officer)

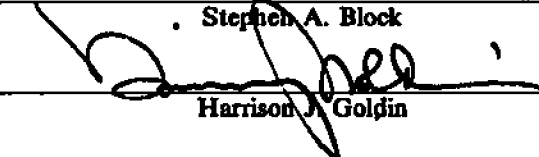
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_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
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_____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Vice President and Controller (Principal Accounting Officer)



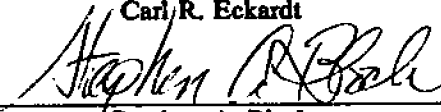
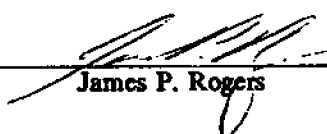
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ISP (PUERTO RICO) INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	Chief Operating Officer
_____ James M. Potter	President and Director
 _____ Carl R. Eckardt	Executive Vice President—Corporate Development
 _____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
 _____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer


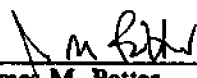

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ISP (PUERTO RICO) INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

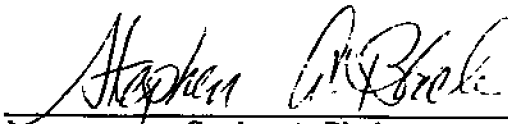
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<u>Signature</u>	<u>Title</u>
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_____ Thomas C. Bohrer	Chief Operating Officer
_____  James M. Potter	President and Director
_____ Carl R. Eckardt	Executive Vice President—Corporate Development
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
_____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____  Jonathan H. Stern	Principal Accounting Officer



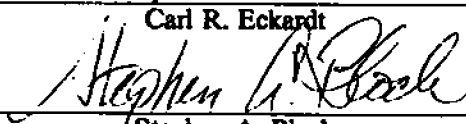

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ISP ENVIRONMENTAL SERVICES INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	President and Chief Operating Officer, Director
 _____ Carl R. Eckardt	Executive Vice President—Corporate Development
 _____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
 _____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer

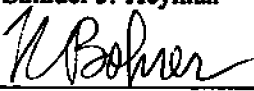

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ISP ENVIRONMENTAL SERVICES INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

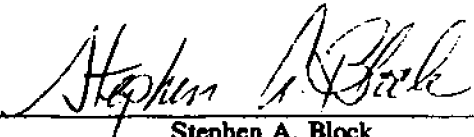
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<u>Signature</u>	<u>Title</u>
_____ Samuel J. Heyman  _____ Thomas C. Bohrer	Chairman of the Board of Directors and Chief Executive Officer
_____ Carl R. Eckardt	President and Chief Operating Officer, Director
_____ Stephen A. Block	Executive Vice President—Corporate Development
_____ James P. Rogers  _____ Jonathan H. Stern	Senior Vice President, General Counsel and Secretary, Director
	Vice President and Treasurer (Principal Financial Officer)
	Principal Accounting Officer

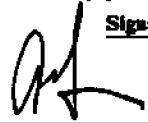
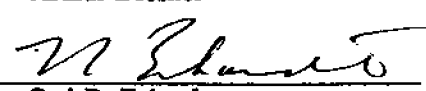
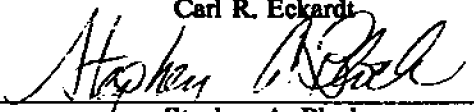
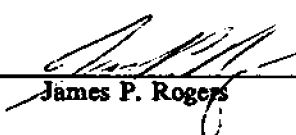
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ISP FILTERS INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	Chief Operating Officer
_____ Arthur Dresner	President and Director
 _____ Carl R. Eckardt	Executive Vice President—Corporate Development
 _____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
 _____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer

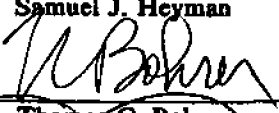

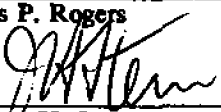
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ISP FILTERS INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

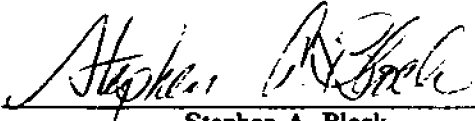
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_____ Carl R. Eckardt	Executive Vice President—Corporate Development
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
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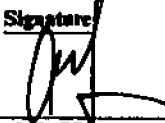

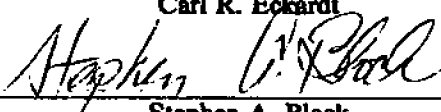
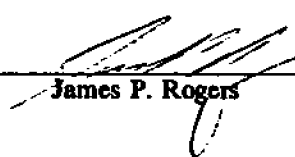
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ISP GLOBAL TECHNOLOGIES INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Hoyman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	Chief Operating Officer
_____ Raymond W. Smith, Jr.	President and Director
 _____ Carl R. Eckardt	Executive Vice President—Corporate Development
 _____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
 _____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer

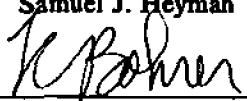


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ISP GLOBAL TECHNOLOGIES INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

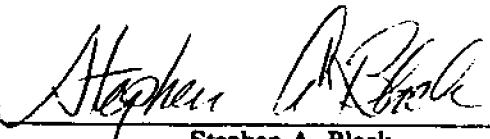
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_____  Thomas C. Bohrer	Chief Operating Officer
_____  Raymond W. Smith, Jr.	President and Director
_____ Carl R. Eckardt	Executive Vice President—Corporate Development
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
_____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____  Jonathan H. Stern	Principal Accounting Officer

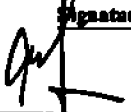
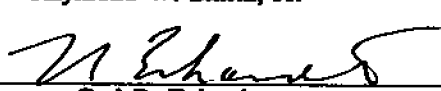
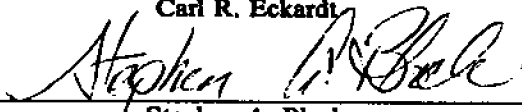

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Wayne, State of New Jersey, on March 27, 1992.

ISP INTERNATIONAL CORP.

By: 
 Stephen A. Block
 Senior Vice President,
 General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	Chief Operating Officer
_____ Raymond W. Smith, Jr.	President and Director
 _____ Carl R. Eckardt	Executive Vice President—Corporate Development
 _____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
 _____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer

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ISP INTERNATIONAL CORP.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

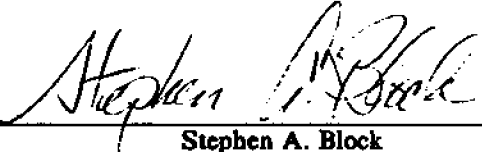
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<u>Signature</u>	<u>Title</u>
_____ Samuel J. Hayman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	Chief Operating Officer
_____ Raymond W. Smith, Jr.	President and Director
_____ Carl R. Eckardt	Executive Vice President—Corporate Development
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
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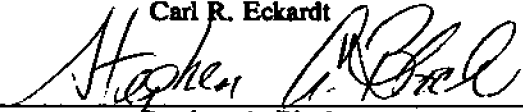
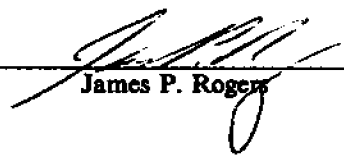
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ISP INVESTMENTS INC.

By: 
 Stephen A. Block
 Senior Vice President,
 General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	Chief Operating Officer
_____ Richard B. Olsen	President
 Carl R. Eckardt	Executive Vice President—Corporate Development
 Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
 James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer

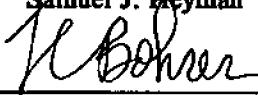


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ISP INVESTMENTS INC.

By: _____
Stephen A. Block
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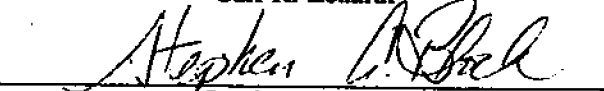
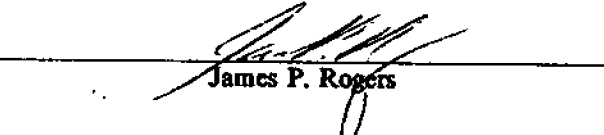

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ISP MANAGEMENT COMPANY, INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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<u>Signature</u>	<u>Title</u>
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 Carl R. Eckardt	Executive Vice President—Corporate Development; Director
 Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
 James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
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_____ Thomas C. Bohrer	President and Chief Operating Officer; Director
_____ /s/ CARL R. ECKARDT Carl R. Eckardt	Executive Vice President—Corporate Development; Director
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
_____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
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ISP MANAGEMENT COMPANY, INC.

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Senior Vice President,
General Counsel & Secretary

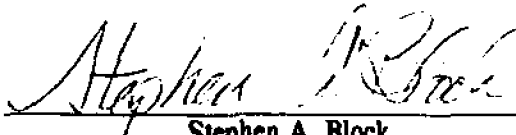
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_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
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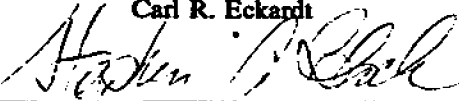
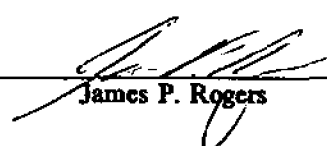
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ISP MINERAL PRODUCTS INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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<u>Signature</u>	<u>Title</u>
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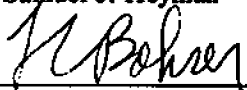

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ISP MINERAL PRODUCTS INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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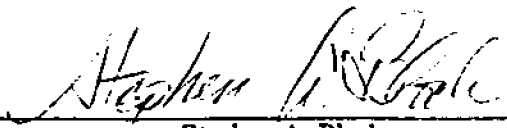
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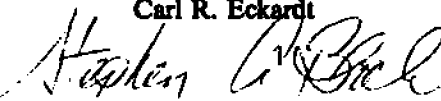

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ISP MINERALS INC.

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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By: _____
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_____ T. H. King  Thomas C. Bohrer	President and Director Chief Operating Officer
_____ Carl R. Eckardt	Executive Vice President—Corporate Development
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
_____ James P. Rogers  Jonathan H. Stern	Vice President and Treasurer (Principal Financial Officer) Principal Accounting Officer

SIGNATURES

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ISP MINERALS INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

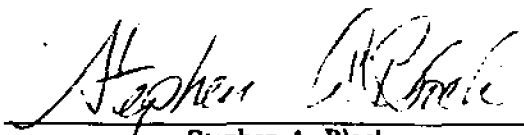
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_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
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_____ Jonathan H. Stern	Principal Accounting Officer



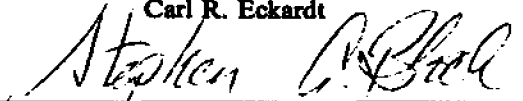
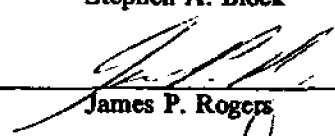

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ISP REAL ESTATE COMPANY, INC.

By: 
 Stephen A. Block
 Senior Vice President,
 General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	Chief Operating Officer
_____ Richard B. Olsen	President
 Carl R. Eckardt	Executive Vice President—Corporate Development
 Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
 James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
 Jonathan H. Stern	Principal Accounting Officer

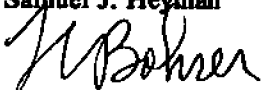


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ISP REAL ESTATE COMPANY, INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

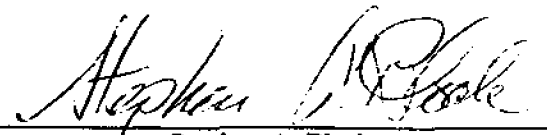
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_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
_____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____  Jonathan H. Stern	Principal Accounting Officer



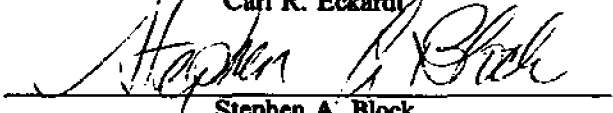

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ISP REALTY CORPORATION

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
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 _____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
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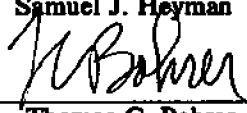
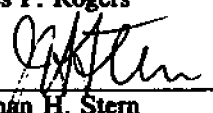
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ISP REALTY CORPORATION

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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<u>Signature</u>	<u>Title</u>
_____ Samuel J. Heyman  _____ Thomas C. Bohrer	Chairman of the Board of Directors and Chief Executive Officer
_____ Carl R. Eckardt	President and Chief Operating Officer
_____ Stephen A. Block	Executive Vice President—Corporate Development
_____ James P. Rogers  _____ Jonathan H. Stern	Senior Vice President, General Counsel and Secretary, Director
	Vice President and Treasurer (Principal Financial Officer)
	Principal Accounting Officer

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VERONA INC.

By: Stephen A. Block
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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<u>Signature</u>	<u>Title</u>
<u>Samuel J. Heyman</u>	Chairman of the Board of Directors and Chief Executive Officer
<u>Thomas C. Bohrer</u>	Chief Operating Officer
<u>Steven Johnson</u>	President
<u>Carl R. Eckardt</u>	Executive Vice President, Corporate Development
<u>Stephen A. Block</u>	Senior Vice President, General Counsel and Secretary, Director
<u>James P. Rogers</u>	Vice President and Treasurer (Principal Financial Officer)
<u>Jonathan H. Stern</u>	Principal Accounting Officer


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VERONA INC.

By: _____
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

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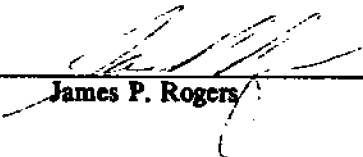
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VERONA INC.

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VERONA INC.

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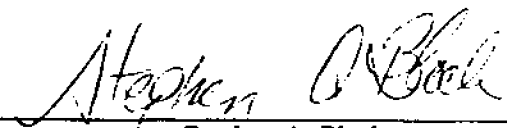
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_____ Steven Johnson	President
_____ Carl R. Eckardt	Executive Vice President, Corporate Development
_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
_____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
_____  Jonathan H. Stern	Principal Accounting Officer


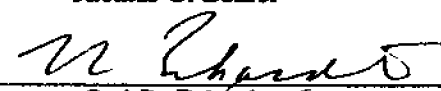
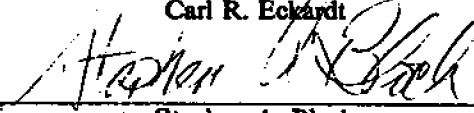

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Wayne, State of New Jersey, on March 27, 1992.

BLUEHALL CORPORATION

By: 
Stephen A. Block
Senior Vice President,
General Counsel & Secretary

Pursuant to the requirements of the Securities Act of 1934, this report has been signed on March 27, 1992, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
_____ Thomas C. Bohrer	President and Chief Operating Officer
 _____ Carl R. Eckardt	Executive Vice President—Corporate Development
 _____ Stephen A. Block	Senior Vice President, General Counsel and Secretary, Director
 _____ James P. Rogers	Vice President and Treasurer (Principal Financial Officer)
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_____ Stephen A. Block	Senior Vice President, General Counsel and Secretary; Director
_____ James P. Rogers 	Vice President and Treasurer (Principal Financial Officer)
_____ Jonathan H. Stern	Principal Accounting Officer

INTERNATIONAL SPECIALTY PRODUCTS INC.

PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1991
(Thousands)

Classification	Balance January 1, 1991	Additions at Cost	Retirements	Other (b)	Balance December 31, 1991
Land	\$ 33,497	\$ —	\$ —	\$ —	\$ 33,497
Land improvements	6,411	487	1	20	6,917
Buildings and building equipment	52,679	2,315	82	47	54,959
Machinery and equipment	239,623	25,611	1,096	(354)	263,784
Construction in progress	20,102	6,009(a)	—	(57)	26,054
	<u>\$352,312</u>	<u>\$34,422</u>	<u>\$1,179</u>	<u>\$(344)</u>	<u>\$385,211</u>

Year Ended December 31, 1990
(Thousands)

Classification	Balance January 1, 1990	Additions at Cost	Retirements	Other(b)	Balance December 31, 1990
Land	\$ 34,001	\$ —	\$ 504	\$ —	\$ 33,497
Land improvements	5,834	428	92	241	6,411
Buildings and building equipment	50,167	3,529	1,531	514	52,679
Machinery and equipment	205,251	35,608	3,005	1,769	239,623
Construction in progress	25,337	(3,938)(a)	113	(1,184)	20,102
	<u>\$320,590</u>	<u>\$35,627</u>	<u>\$5,245</u>	<u>\$ 1,340</u>	<u>\$352,312</u>

Nine Months Ended December 31, 1989
(Thousands)

Classification	Balance April 2, 1989	Acquisition of Predecessor Company	Additions at Cost	Retirements	Transfers To Other Accounts	Other(c)	Balance December 31, 1989
Land	\$ —	\$ 34,258	\$ —	\$ —	\$(1,153)	\$ 896	\$ 34,001
Land improvements	—	3,097	619	58	2,156	20	5,834
Buildings and building equipment	—	44,362	4,515	58	158	1,190	50,167
Machinery and equipment	—	171,517	31,985	3,579	3,962	1,366	205,251
Construction in progress	—	39,080	(14,210)(a)	—	467	—	25,337
	<u>\$ —</u>	<u>\$292,314</u>	<u>\$ 22,909</u>	<u>\$3,695</u>	<u>\$ 5,590</u>	<u>\$3,472</u>	<u>\$320,590</u>

Notes:

- (a) Denotes net change during the period.
 (b) Principally reflects sales of fixed assets.
 (c) Includes \$2.9 million related to the acquisition of Sutton Laboratories, Inc. (see Note 4 of Notes to Consolidated Financial Statements contained in the Company's Annual Report).

The ranges of annual depreciation rates generally were as follows (applied principally on the straight-line basis):

Land improvements	2 1/2 - 20 %
Buildings and building equipment	2 1/2 - 33 1/3 %
Machinery and equipment	5 - 33 1/3 %

INTERNATIONAL SPECIALTY PRODUCTS INC.
ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1991
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1991</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other</u>	<u>Balance December 31, 1991</u>
Land improvements	\$ 624	\$ 410	\$ 1	\$ —	\$ 1,033
Buildings and building equipment	4,411	2,676	79	13	7,021
Machinery and equipment	23,240	16,633	1,122	(331)	38,420
	<u>\$28,275</u>	<u>\$19,719</u>	<u>\$1,202</u>	<u>\$(318)</u>	<u>\$46,474</u>

Year Ended December 31, 1990
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1990</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other</u>	<u>Balance December 31, 1990</u>
Land improvements	\$ 284	\$ 434	\$ 94	\$ —	\$ 624
Buildings and building equipment	1,715	2,676	44	64	4,411
Machinery and equipment	9,099	15,670	1,608	79	23,240
	<u>\$11,098</u>	<u>\$18,780</u>	<u>\$1,746</u>	<u>\$ 143</u>	<u>\$28,275</u>

Nine Months Ended December 31, 1989
(Thousands)

<u>Classification</u>	<u>Balance April 2, 1989</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Transfer To Other Accounts</u>	<u>Balance December 31, 1989</u>
Land improvements	\$ —	\$ 290	\$ 8	\$ 2	\$ 284
Buildings and building equipment	—	1,734	45	26	1,715
Machinery and equipment	—	9,971	825	(47)	9,099
	<u>\$ —</u>	<u>\$11,995</u>	<u>\$ 878</u>	<u>\$ (19)</u>	<u>\$11,098</u>

INTERNATIONAL SPECIALTY PRODUCTS INC.
VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 1991
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1991</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1991</u>
Valuation and qualifying accounts deducted from assets to which they apply:				
Allowance for doubtful accounts	\$2,433	\$ 208	\$ 420(a)	\$2,221
Reserve for inventory market valuation	5,046	1,752	3,409	3,389

Year Ended December 31, 1990
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1990</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1990</u>
Valuation and qualifying accounts deducted from assets to which they apply:				
Allowance for doubtful accounts	\$1,845	\$ 807	\$ 219(a)	\$2,433
Reserve for inventory market valuation	3,938	2,901	1,793	5,046

Nine Months Ended December 31, 1989
(Thousands)

<u>Classification</u>	<u>Balance April 2, 1989</u>	<u>Acquisition of Predecessor Company</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1989</u>
Valuation and qualifying accounts deducted from assets to which they apply:					
Allowance for doubtful accounts	\$ —	\$1,398	\$ 655	\$ 208(a)	\$1,845
Reserve for inventory market valuation	—	4,450	3,450	3,962	3,938

Note:

(a) Represents write-offs of uncollectible accounts net of recoveries.

INTERNATIONAL SPECIALTY PRODUCTS INC.
SHORT-TERM BORROWINGS

Year Ended December 31, 1991
(Dollars in Thousands)

<u>Category</u>	<u>At December 31, 1991</u>		<u>For the Year 1991</u>		
	<u>Balance Outstanding</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Month-end Amount Outstanding</u>	<u>Average Month-end Amount Outstanding</u>	<u>Weighted Average Month-end Interest Rate</u>
Bank Borrowings	\$ 105	10.0%	\$10,373	\$ 3,108	10.0%
Borrowings from GAF-Hiils joint venture	—	—	10,819	2,558	9.3%

Year Ended December 31, 1990
(Dollars in Thousands)

<u>Category</u>	<u>At December 31, 1990</u>		<u>For the Year 1990</u>		
	<u>Balance Outstanding</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Month-end Amount Outstanding</u>	<u>Average Month-end Amount Outstanding</u>	<u>Weighted Average Month-end Interest Rate</u>
Bank Borrowings	\$ 9,317	9.3%	\$13,012	\$ 9,265	9.9%
Borrowings from GAF-Hiils joint venture	—	—	19,262	12,611	8.5%

Nine Months Ended December 31, 1989
(Dollars in Thousands)

<u>Category</u>	<u>At December 31, 1989</u>		<u>For the Nine-month Period</u>		
	<u>Balance Outstanding</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Month-end Amount Outstanding</u>	<u>Average Month-end Amount Outstanding</u>	<u>Weighted Average Month-end Interest Rate</u>
Bank Borrowings	\$ 8,309	10.0%	\$10,378	\$ 7,253	10.2%
Borrowings from GAF-Hiils joint venture	—	—	21,429	18,169	7.3%

Note:

Bank borrowings represent borrowings by the Company's foreign subsidiaries under short-term lines of credit which expire on various dates, but are generally renewable. Borrowings under the short-term lines of credit generally bear interest at or near the prevailing market rates in the individual countries.

INTERNATIONAL SPECIALTY PRODUCTS INC.
(Predecessor Company)

PROPERTY, PLANT AND EQUIPMENT

First Quarter Ended April 2, 1989
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1989</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Transfers Between Accounts</u>	<u>Balance April 2, 1989</u>
Land	\$ 4,868	\$ —	\$ —	\$ (37)	\$ 4,831
Land improvements	6,813	189	—	(41)	6,961
Buildings and building equipment	35,552	199	8	(466)	35,277
Machinery and equipment	127,303	4,531	286	(85)	131,463
Construction in progress	41,128	(1,082) (a)	—	2	40,048
	<u>\$215,664</u>	<u>\$ 3,837</u>	<u>\$294</u>	<u>\$ (627)</u>	<u>\$218,580</u>

Note:

(a) Denotes net change during the period.

The ranges of annual depreciation rates generally were as follows (applied principally on the straight-line basis):

Land improvements	2½ - 6⅓%
Buildings and building equipment	2½ - 33⅓%
Machinery and equipment	5 - 33⅓%

INTERNATIONAL SPECIALTY PRODUCTS INC.
(Predecessor Company)
ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

First Quarter Ended April 2, 1989
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1989</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Transfer From Other Accounts</u>	<u>Balance April 2, 1989</u>
Land improvements	\$ 3,402	\$ 62	\$—	\$ (14)	\$ 3,450
Buildings and building equipment.....	18,749	383	7	(175)	18,950
Machinery and equipment.....	51,843	1,869	227	(127)	53,358
	<u>\$73,994</u>	<u>\$2,314</u>	<u>\$234</u>	<u>\$(316)</u>	<u>\$75,758</u>

INTERNATIONAL SPECIALTY PRODUCTS INC.
(Predecessor Company)

VALUATION AND QUALIFYING ACCOUNTS

First Quarter Ended April 2, 1989
(Thousands)

<u>Classification</u>	<u>Balance January 1, 1989</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance April 2, 1989</u>
Valuation and qualifying accounts deducted from assets to which they apply:				
Allowance for doubtful accounts	\$1,707	\$ (2)	\$307(a)	\$1,398
Reserve for inventory market valuation	3,997	1,326	873	4,450

Note:

(a) Represents write-offs of uncollectible accounts net of recoveries.

INTERNATIONAL SPECIALTY PRODUCTS INC.
(Predecessor Company)
SHORT-TERM BORROWINGS

First Quarter Ended April 2, 1989
(Dollars in Thousands)

<u>Category</u>	<u>At April 2, 1989</u>		<u>For the Quarter</u>		
	<u>Balance Outstanding</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Month-end Amount Outstanding</u>	<u>Average Month-end Amount Outstanding</u>	<u>Weighted Average Month-end Interest Rate</u>
Bank Borrowings	\$9,446	8.6%	\$9,446	\$8,374	9.1%

Note:

Bank borrowings represent borrowings by the Predecessor Company's foreign subsidiaries under short-term lines of credit which expired on various dates, but were generally renewable. Borrowings under the short-term lines of credit generally bore interest at or near the prevailing market rates in the individual countries.

EXHIBIT INDEX

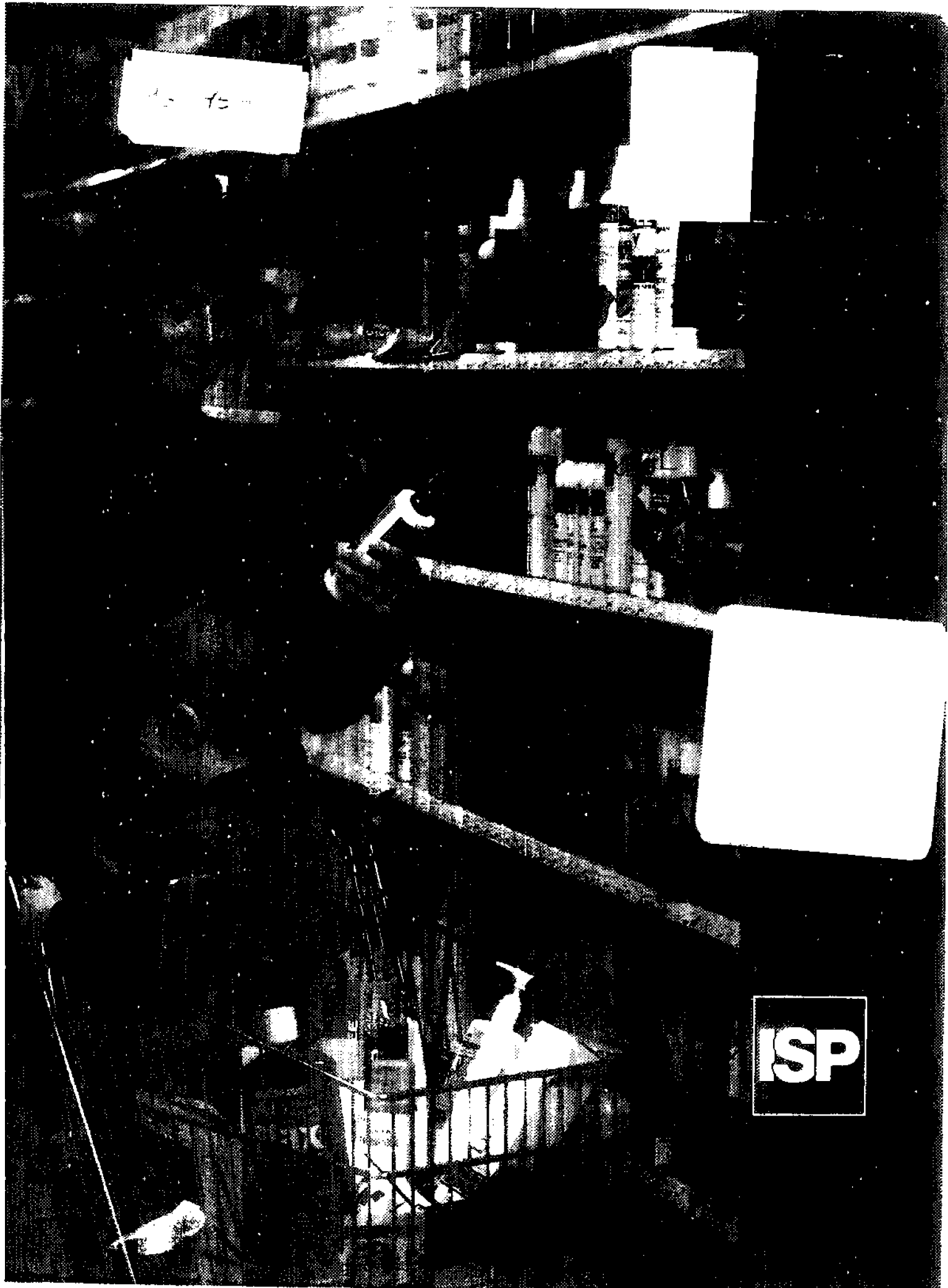
Page No.

22. Subsidiaries of the Company

All other exhibits incorporated by reference as stated on
pages

Significant Subsidiaries

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
ISP Chemicals Inc.	Delaware
ISP Investments Inc.	Delaware
ISP Minerals Inc.	Delaware
ISP Technologies Inc.	Delaware
ISP Global Technologies Inc.	Delaware



ABOUT THE COMPANY

International Specialty Products is one of the world's premier specialty chemical companies. Using proprietary technology, ISP makes products that are key ingredients in branded personal care, pharmaceutical, food and beverage, agricultural, and industrial products manufactured by more than 6,000 of our customers worldwide. The Company's specialty derivative chemicals provide consumer products with their key performance characteristics.

1991 represented ISP's ninth consecutive year of increased sales and earnings. The Company achieved these results through a combination of highly flexible manufacturing, a spirit of innovation, close ties to customers, a rapid response, an in-depth understanding of customer and end user technology, high quality standards, and the continued expansion of its aggressive global marketing program. The Company sells its products in 72 countries, with almost 60 percent of its specialty derivative chemicals sales coming from outside the United States.

ISP's Mineral Products business is a leader in the sale of colored, ceramic coated granules for use in the manufacture of asphalt roofing shingles.

In a public offering in July 1991, ISP sold approximately 19.4 million shares of common stock. The Company's stock is traded on the New York Stock Exchange under the symbol "ISP".

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2	Chairman's Message
6	Introducing ISP
8	ISP's Market Driven Strategy
10	Spotlighting ISP's Products
12	The Role of Research and Development
16	Operating in a Global Marketplace
18	ISP and the Environment
20	Quality Standards at ISP Manufacturing Facilities
20	Mineral Products
22	Filter Products
22	Advanced Materials
23	Financial Review
49	Board of Directors, Corporate Officers, Shareholder Information, and ISP Locations

On the Cover:

ISP specialty derivative chemicals are key ingredients in thousands of branded consumer products, including cosmetics, personal care, and pharmaceutical and health-related products

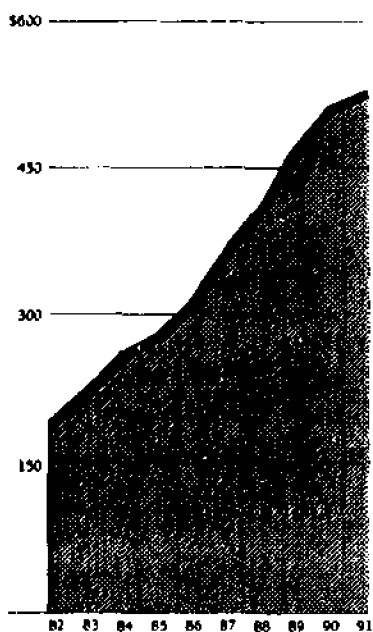
**FINANCIAL
HIGHLIGHTS**

(Thousands of Dollars, Except Per Share Amounts)

	1991	1990
Net sales	\$525,786	\$511,652
Operating income	\$140,522	\$133,056
Income before income taxes	\$ 78,968	\$ 45,323
Net income	\$ 50,855	\$ 30,768
Earnings per common share	\$.56	\$.38

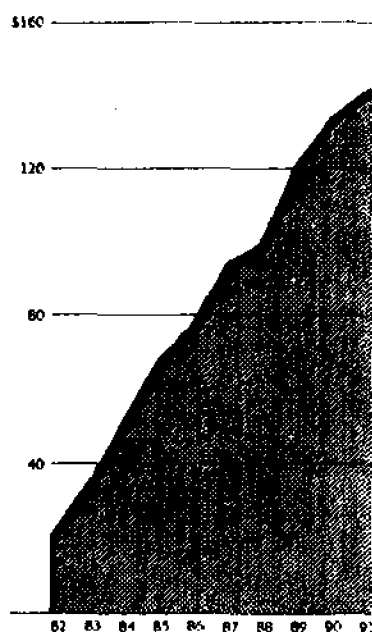
Net Sales

(In millions of dollars)

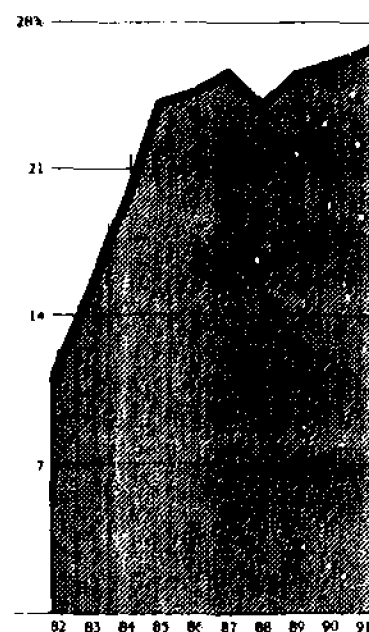


Operating Income

(In millions of dollars)



**Operating Income as % of
Net Sales**



CHAIRMAN'S MESSAGE

FELLOW SHAREHOLDERS:

It is with a sense of pride that we report on the Company's 1991 performance in my first Annual Message since ISP's initial public offering last July. For notwithstanding a difficult economic environment both in the United States and abroad, the Company recorded in 1991 its ninth consecutive year of increased sales and operating income while achieving a host of other accomplishments as well.

ISP's re-emergence as a public Company after more than two years of private ownership was motivated in large measure by our conviction that the increased operating and financial flexibility associated with a deleveraged capital structure would enable ISP to take full advantage of a wide range of attractive growth opportunities. And in this connection, ISP's future success should be measured by the extent to which we are able to successfully exploit these opportunities in the months and years ahead.

1991 FINANCIAL RESULTS

For the twelve-month period ended December 31, 1991, net income was \$50.9 million (56 cents a share), compared with net income of \$30.8 million (38 cents a share) for the previous year. Operating income increased from \$133.1 million in 1990 to \$140.5 million in 1991, while revenues were \$525.8 million compared with \$511.7 million in 1990.

For the fourth quarter of 1991, net income was \$10.2 million (10 cents a share) versus \$2.4 million (3 cents a share) for the 1990 period. Sales for the fourth quarter were \$122.4 million, compared with \$125 million for the same period a year earlier.

The Company's record breaking operating performance was attributable to a 7 percent increase in the operating income of specialty derivative chemicals (which was the result of an improved product mix and higher pricing as partially offset by additional selling, general, and administrative expenses, increased costs associated with new product programs, and an

unfavorable foreign exchange impact) and an 11 percent increase in the operating income of mineral products.

OTHER FINANCIAL HIGHLIGHTS

With one of the principal objectives of ISP's initial public offering being the deleveraging of the Company's capital structure, ISP was able, after applying the net proceeds of the offering (more than \$280 million) to pay down debt, to reduce its leverage ratio from more than 80 percent to slightly less than 50 percent. ISP's strong financial position was given recognition earlier this month when the Company successfully completed a public debt offering, consisting of \$200 million of seven-year, senior notes carrying a fixed interest rate of 9 percent.

The success of the bond offering, initially proposed in the amount of \$150 million and increased due to strong demand, provides evidence of ISP's favorable standing in the investment community. Moreover, we expect that ISP's remaining bank debt, which has been classified as an HLT (highly leveraged transaction) credit since ISP's parent, GAF Corporation, went private in March, 1989, will have its HLT designation removed at the end of the first quarter—thereby enabling ISP to refinance its remaining bank debt on more advantageous terms.

ISP'S GROWTH STRATEGY

ISP's future growth strategy is based on three principal elements:

- New products and new applications for existing products;
- Increased geographic penetration of overseas markets and the continued globalization of the Company's business; and
- A program to make niche acquisitions of businesses and product lines closely related to our own.

New Products and Applications

ISP substantially increased its commitment several years ago to its new product development program and



Samuel J. Heyman, Chairman of the Board and (left), and Thomas C. Bohrer, President and CEO (right).

established as a strategic objective the goal of generating at least 25 percent of the Company's annual sales and profits from new products and applications developed in the prior five-year period. To that end, ISP continued to expand its research and development programs in 1991 and is currently in the process of hiring a substantial number of additional scientists, with the objective this year of increasing the size of its research and development staff by more than 15 percent. This not insubstantial increase comes on the heels of an average per annum increase in R&D expenditures since 1983 of more than 12 percent, and should help to sustain and indeed accelerate an R&D effort which is currently enabling ISP to develop one new product and some ten new applications each month.

Examples of several new products and applications developed this past year which should begin to make a contribution to sales and profits in 1992 are as follows: an exciting new application for ISP's line of environmentally sound solvents, Woodfinisher's Pride, a consumer paint and varnish remover for do-it-yourself homeowners, which has met with such enthusiastic consumer response that it is now being sold in more than 6,000 retail stores throughout the country; Gantrez® V, a

new and improved hair spray polymer, which provides faster drying times, improves curl retention, and reduces tackiness in hair spray formulations; ISP's new EPA-approved Agrimer™ product for use in pesticides to provide greater adhesion to foliage; and new innovative applications for ISP's PVP polymers for such diverse uses as providing sharper definition in the manufacturing of high definition television tubes and as a coating used in the manufacture of ultrafiltration membranes in connection with separation processes in the biotechnology field.

Growth of ISP's International Business

ISP's international sales have grown over the past eight years at an average annual rate of 20 percent, having increased from 26 percent of the Company's total sales in 1983 to almost 50 percent this past year. While ISP's European sales have been principally responsible for the growth of the Company's international business over this period of time, we believe that the Company's business in the Asia-Pacific region, Eastern Europe, and Latin America will begin to play an increasingly important role in ISP's continued growth. By way of example, ISP's operating income in the Asia-Pacific region grew at an average annual rate of 34 percent over the past five years and continued to grow at double digit rates this past year despite slowing economies in that area of the world.

To further the expansion of ISP's international business, the Company has opened over the past several years new offices in a substantial number of countries offering ISP attractive opportunities to participate in the continued development of Eastern Europe, Latin America, and, most significantly, the Asia-Pacific region of the world. Moreover, ISP's international business has developed to the extent that, in order to sustain and further its growth, we will be constructing additional manufacturing capacity in both Europe and the Far East. To this end, we expect to announce a decision with regard to the location of a new European manufacturing facility in 1992, while plans for a Far East facility should be concluded the following year.

ISP's Niche Acquisition Program

The current private sale market for specialty chemicals businesses, where acquisition prices today are substantially below levels which prevailed in the last half of the 1980s, offer, and will likely continue to do so for the next several years, unusually attractive opportunities for ISP. And while we have no intention whatsoever of making ISP into an acquisition vehicle, we do believe that there is an appropriate place in the Company's overall growth strategy for a limited, strategic acquisition program so long as it is consistent with ISP's credit quality objective, which is to continue to improve the Company's financial profile.

ISP's acquisition strategy is focused on niche type acquisitions with particular emphasis on the non-cyclical industries on which we are concentrating—cosmetics and personal care, pharmaceuticals and health-related products, and food and beverages. We expect these acquisitions to be synergistic in that they will either complement existing product lines, further the geographic reach of our businesses, or increase our market shares. Moreover, it is expected that any acquisitions made by ISP will involve businesses with similar characteristics to our own, involving high value-added products, leading market shares, significant barriers to entry, and product lines which not only complement ISP's own but can be expanded by use of the Company's technology, marketing expertise, and worldwide distribution network.

In line with the Company's acquisition strategy, we currently have several small acquisitions under serious consideration and should be in a position to announce one or more transactions as the year progresses.

OTHER DEVELOPMENTS

ISP's Environmental Services business continues to pursue regulatory approvals to permit the installation and operation of a hazardous waste disposal facility at the site of its former Linden, New Jersey, manufacturing plant. Administrative hearings on the Company's

application were concluded in early February, and a decision from the New Jersey Hazardous Waste Facilities Siting Commission is expected some time in the second quarter. We believe that the hearings went well and are cautiously optimistic as to the eventual outcome.

PROSPECTS FOR 1992

While 1991 was a year in which ISP registered respectable year-to-year increases in both operating profits and earnings, the Company's second-half performance was nevertheless below expectations, with lower sales of ISP products to industrial end-use customers offsetting continued growth in sales of higher value-added specialty products to the cosmetics and personal care, pharmaceutical, and food and beverage industries. And although this same trend will continue to influence the Company's first quarter operating performance, we are beginning to see signs which auger well for improvement over the balance of the year.

The performance of our business as the year progresses should be favorably influenced by, among other things, continued new product development, which should enable ISP to gain greater market penetration, particularly in the cosmetics and personal care industries; improving demand from the industrial sector where the Company's business has been adversely affected over the last year as a result of less than robust economic conditions; and continued growth of the Company's Asia-Pacific business.

While it is not our practice to issue earnings projections, I can assure you that management is committed to achieving substantial year-to-year earnings increases and, further, that we expect to meet that challenge in 1992. ISP's earnings performance this year should not only benefit from an improved operating performance, as described above, but will be positively influenced as well by substantially lower interest expense, resulting from both reduced levels of debt versus year ago levels and lower interest rates as a result of favorable credit market conditions.

ACKNOWLEDGMENTS

ISP's record of accomplishment over the past year was attributable to the exemplary efforts of so many members of the ISP community, and I am delighted to take public cognizance of their many contributions to the success of our common endeavor. Accordingly, we express appreciation to ISP's Board of Directors for its steadfast support and counsel, our customers whose business and long-standing loyalty we constantly strive to reciprocate in our dedication to providing products of the highest quality at the most competitive prices, and my fellow ISP employees who continue to manifest abilities, efforts, and a degree of intensity far beyond the ordinary in carrying out ISP's policies in the pursuit of our common objectives.

Deserving of particular mention in this message is Heinn F. (Tom) Tomfohrde, III, ISP's former President and Chief Operating Officer, who left the Company last year after almost five years of dedicated service. During Tom's tenure, he helped guide ISP's business to an extraordinarily impressive performance, and we are grateful for his inestimable contribution to our Company.

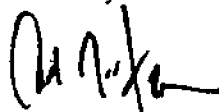
It has always been my view that one of the most telling signs of the health, vigor, and vitality of a business enterprise is not only the quality and enthusiasm of its existing employees but the degree to which it is able to recruit outstanding executives to the Corporation from the outside. And so I am particularly pleased that Tom Bohrer has joined ISP as President, Chief Operating Officer, and a member of the Company's Board of Directors. Tom is an outstanding executive, whom we have known and done business with for a number of years in his capacity as President of Hoechst-Celanese's Engineering Plastics business, and I am delighted that these pages afford me the opportunity to welcome him to our Company.

On a final note, it is worthy of mention that we have recently awarded stock options to not only the Company's managerial employees but all other salaried and certain hourly employees as well. While these awards represent less than one percent of ISP's

outstanding shares and therefore involve minimal dilution, they enabled almost two-thirds of our entire employee population to become ISP shareholders. This is of course over and above the ownership interest in ISP held by members of management through their holdings in GAF Corporation. The degree of employee participation in the ownership of our Company is highly unusual, if not unique, in corporate experience, and we believe that it contributes in no small measure to the creation at ISP of a corporate ethic in which employees treat the Corporation's money as if it were their own—as, in fact, it is!

We look forward in 1992 to a year of continued accomplishment.

Sincerely,



Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer

March 9, 1992

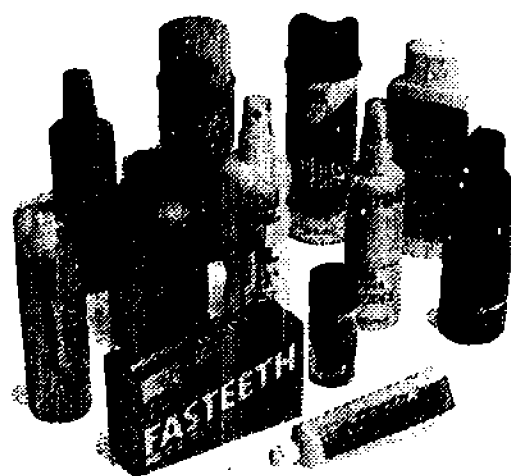
INTRODUCING ISP

Our name, International Specialty Products, describes who we are, a broad-based international Company that produces over 200 proprietary chemical additives and enhancers, each developed to increase the performance of thousands of different branded consumer, industrial, and agricultural end products. We supply ingredients that improve the performance of our customers' products, often giving them the unique characteristics that differentiate them from competitors' products. Because we identify with our customers, meeting their needs and those of their customers influences nearly every phase of the Company's operations, from research and development to sales and marketing.

In this section of the Annual Report, we will highlight our 1991 accomplishments, concentrating on our Specialty Derivative Chemicals and Mineral Products businesses. We will describe how we differ from other specialty chemical companies, illustrate the way we do research, review some of our new products and applications, and show the directions we're heading in a global marketplace.

Although our trademarks are not household names, our products are used in the processing of, or are listed as ingredients on, the labels of thousands of consumer products. Their benefits are noteworthy. Plasdone® polymers help improve the shelf-life of blood supplies; ShipShape® resin cleaner is used in the fiberglass boat industry as an alternative to volatile and flammable acetone cleaners; Polyclar® stabilizes and clarifies wine, beer, and other beverages; Gantrez® polymers help dentures adhere longer, stronger, and faster; and Agrimer™ polymers permit pesticides to adhere more readily to plants. These products, and hundreds more like them, make up the extremely broad geographic, customer, market application, and product base of our specialty derivative chemicals business.

While ISP's specialty derivatives represent only a small part of the cost of the ultimate product, they provide our





Success in today's
personal care market
depends on the
manufacturer's ability to
introduce products with
unique characteristics.
Gantrez® enhances the
performance of the active
ingredient in tartar
control toothpaste,
Advantage V facilitates
the reduction of volatile
organic compounds in
hairsprays, and
Stabilize® 06 thickens
shampoos and
hair conditioners.

customers' products with decided competitive advantages. In short, more than 6,000 customers worldwide benefit from ISP's versatility in adapting specialty derivatives for their specific applications.

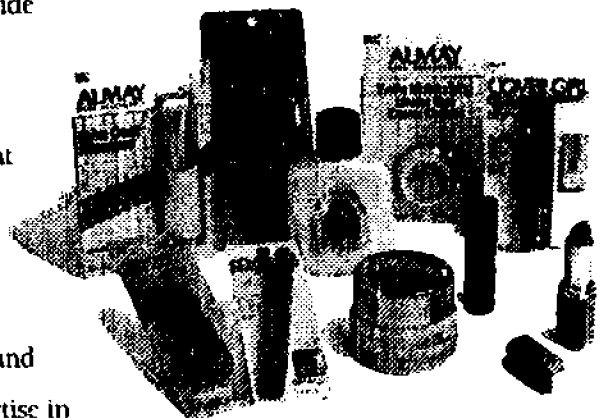
To achieve our goal of thoroughly understanding the needs of our customers and knowing how their products are used in the marketplace, we use many specialized techniques. We have, for example, a fully-equipped beauty salon to test new products in simulated customer formulations. We use focus groups to test products with professional hairdressers and beauticians. We conduct consumer product research to guide the direction of research and development, as well as brainstorming sessions to generate ideas that we present to our customers. And we initiate joint development partnerships with customers to meet mutual objectives. Because of our track record of innovation and quick response, customers turn to us first for solutions to their new product needs.

**ISP's
MARKET
DRIVEN
STRATEGY**

"During the last several years, we have in our marketing strategy increasingly focused on our customers and their customers, thereby enhancing our role in fulfilling a wide range of individual consumer and societal needs," says James Potter, Vice President, Sales and Marketing.

The results of this evolution are a series of significant 1991 accomplishments:

- Specialty derivatives continued its decade of year-to-year worldwide sales growth.
- Our sales and marketing force grew geographically and was enriched by recruiting more personnel with expertise in our target product markets.
- We continued to get closer to customers by emphasizing the advantages of dedicated marketing groups that concentrate in major product application areas. Working with customers, we formed marketing teams which operate





ISP's growing line of
specialty derivatives
provides cosmetics
worldwide their
key performance
characteristics. Our
Germall® and Sustocid®
preservatives protect
cosmetics and skin care
products from microbial
contamination. Ganex® is
the waterproofing agent
used in the preparation of
lipsticks and mascara.

pro-actively with them on new product development and the introduction of end products.

- We formed even broader strategic alliances with a nucleus of select customers to work jointly on the development of new products. These alliances include U.S. and overseas research and development groups from both companies.
- We accelerated an already ambitious new product timetable established years ago by bringing to market 21 new specialty derivative chemical products and over 100 new applications.

SPOTLIGHTING ISP's PRODUCTS

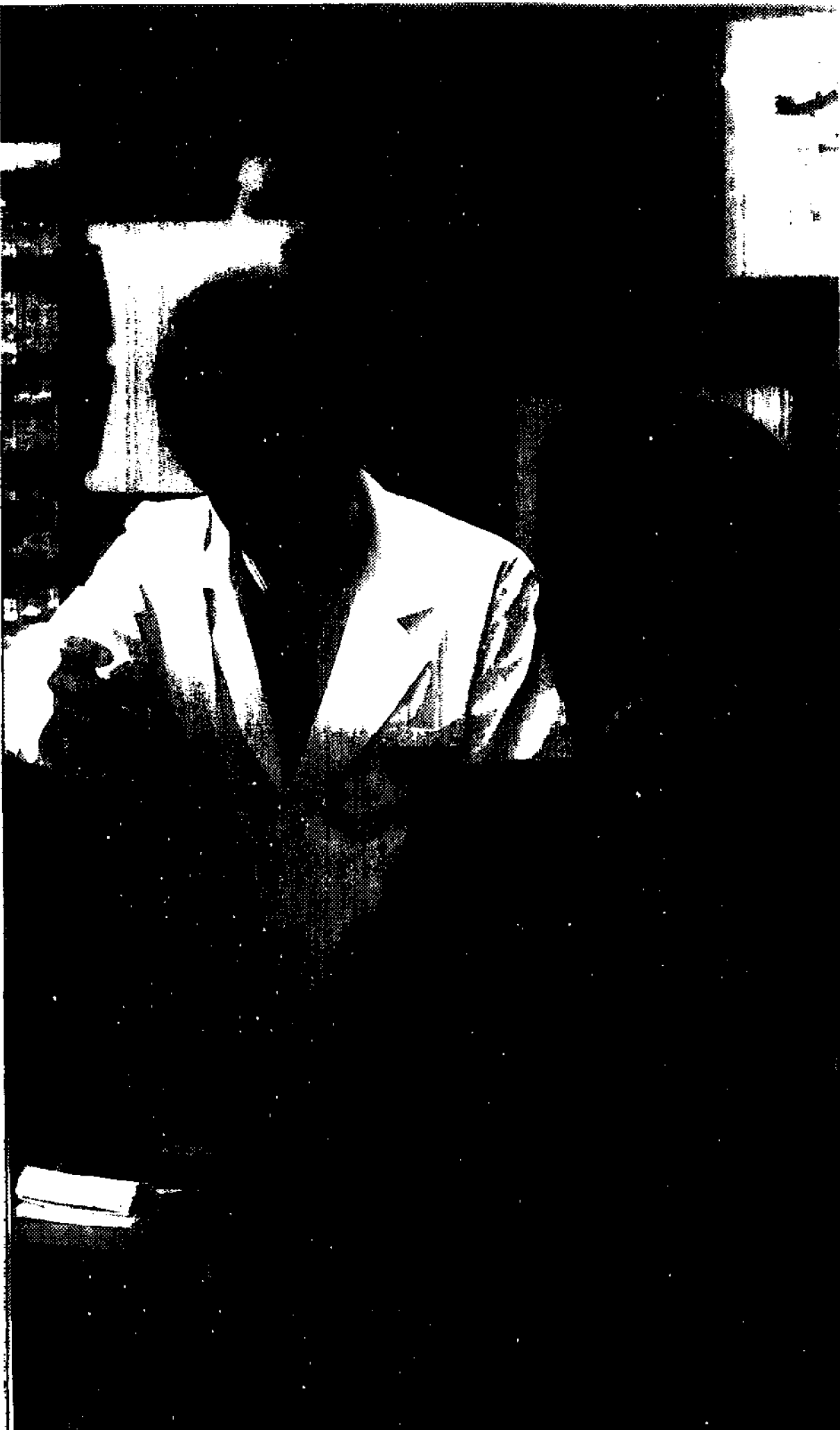
Our product strategy is to achieve leadership in multiple end user, niche markets. ISP products provide the distinctive characteristics that differentiate our customers' brands from others even though the ISP ingredients contribute only a small portion to the cost of end-products such as a six-pack of beer, can of hairspray, bottle of vitamins, or container of pesticide.

David Barton, Senior Vice President and General Manager, Specialty Derivative Chemicals, points out that "we aim to provide products which provide customers a competitive sales edge. When they have that advantage, our customers gain greater market share, and their success means our success."

Liquidone K-29/32, a polymer just introduced for pharmaceutical applications, is a good example of our niche marketing strategy. With Liquidone, cough syrups, chewable tablets, and lozenges have the same viscosity and "mouthfeel" as traditional syrup solutions, yet are non-caloric and alcohol and sodium-free.

To broaden our line of personal care specialty derivatives, we commercialized a polymer under the trademark of Stabileze® which prevents creams and lotions from separating or settling. Suttocide® A, a newly-introduced preservative, can be combined with Stabileze to produce a





ISP's Plasdone®

*polymers are used in a
broad variety of health
care applications.*

*Plasdone is a binder and
disintegrant in tablets,
controlling the release
into the body of the
active ingredients in
prescription and over-
the-counter drugs and
vitamins. It also prevents
crystallization in cough
syrups and other
liquid medicines.*



disintegrant in tablets,
controlling the release
into the body of the
active ingredients in
prescription and over-
the-counter drugs and
vitamins. It also prevents
crystallization in cough
syrups and other
liquid medicines.

crystal-clear gel which gives a smooth feel on the skin and protects the product against spoilage.

Our family of PVP polymers and copolymers, marketed under such trademarks as Plasdone, Polyclar, Ganex, Gafquat, and Agrimer, is used in a broad range of applications, from pharmaceuticals to agricultural products to hair care products to coatings, beverages and detergent formulations. Two innovative applications for ISP's PVP polymers, developed last year, were for sharper imaging in the manufacture of high definition television tubes, and as an ultrafiltration membrane coating in biotechnology separation processes. The Gantrez line of copolymers is used extensively in applications from hairspray resins to denture adhesives and toothpaste.

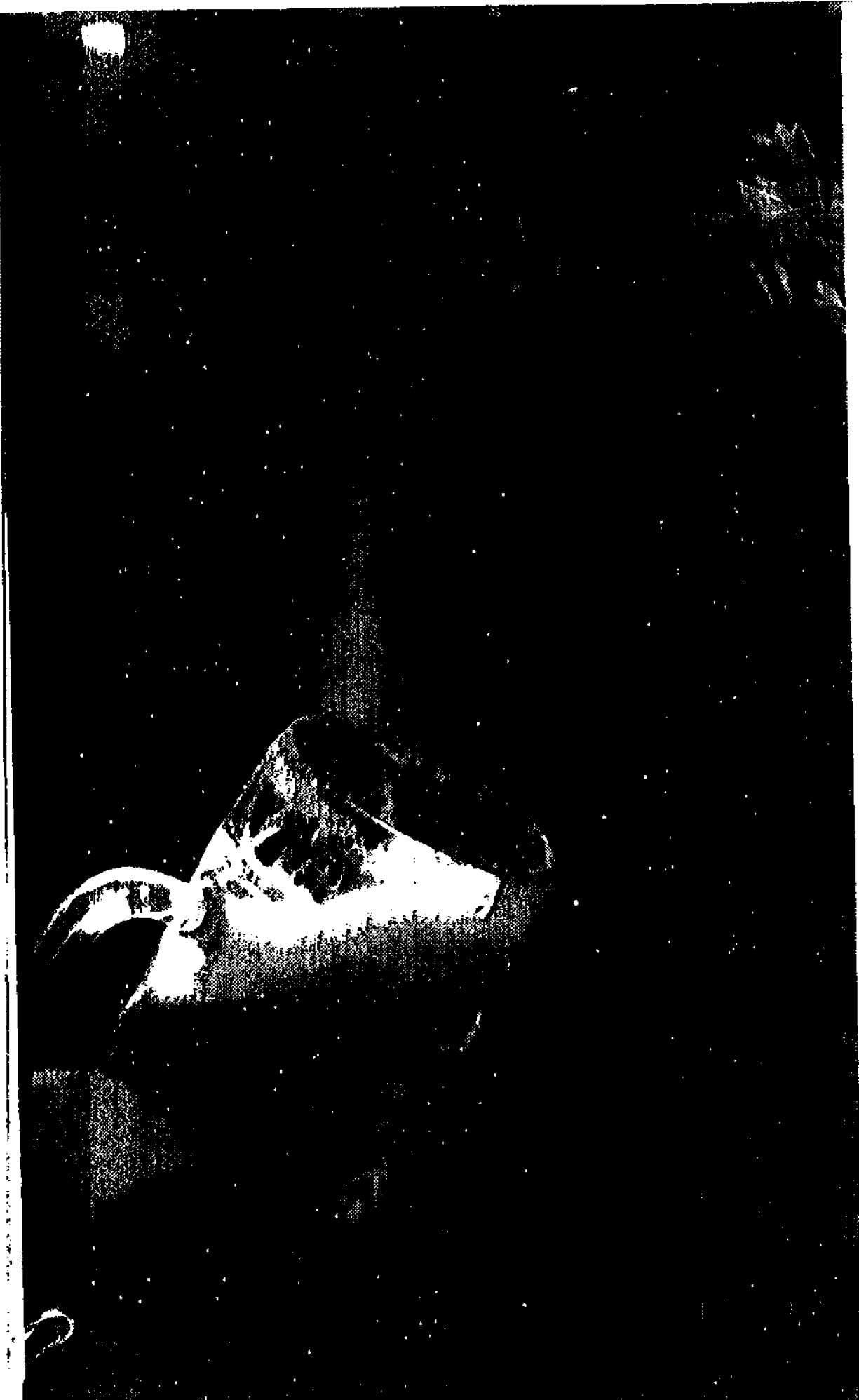
Our pyrrolidone-based solvents are sold under such trademarks as M-Pyrol, ShipShape, PrintSolve, PrepRite, PartsPrep, FoamFlush, and MicroPure. These high performance engineered solvents are used in a broad range of applications from reaction solvents in manufacturing pharmaceuticals to industrial cleaning, stripping, and degreasing. The formulated solvents are tailored to specific end uses and are replacing many chlorinated solvents that have become environmentally unacceptable.

Butanediol is a raw material used in the production of ISP solvents and polymers. This material is also sold to customers as an intermediate in the manufacture of plastic resins used in the automotive, electronics, and appliance industries.

"ISP's versatile chemistry provides us with the ability to create new molecules tailored to meet specific application requirements," notes John Tancredi, Vice President, Research and Development. "The key is to capture the right idea and take it to the market as promptly as possible. In this respect, ISP has no peers. While other companies have to



THE ROLE OF RESEARCH AND DEVELOPMENT



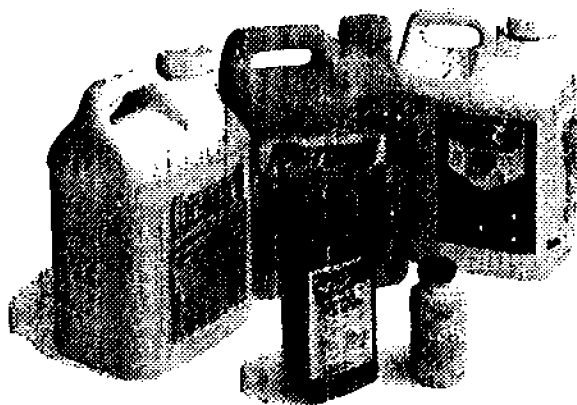
ISP's Polyclar® is used in
the processing of leading
beers and wines through-
out the world to ensure
that they will remain
crystal-clear. It is also
being promoted for the
same purpose in
fruit juices and other
clear beverages.

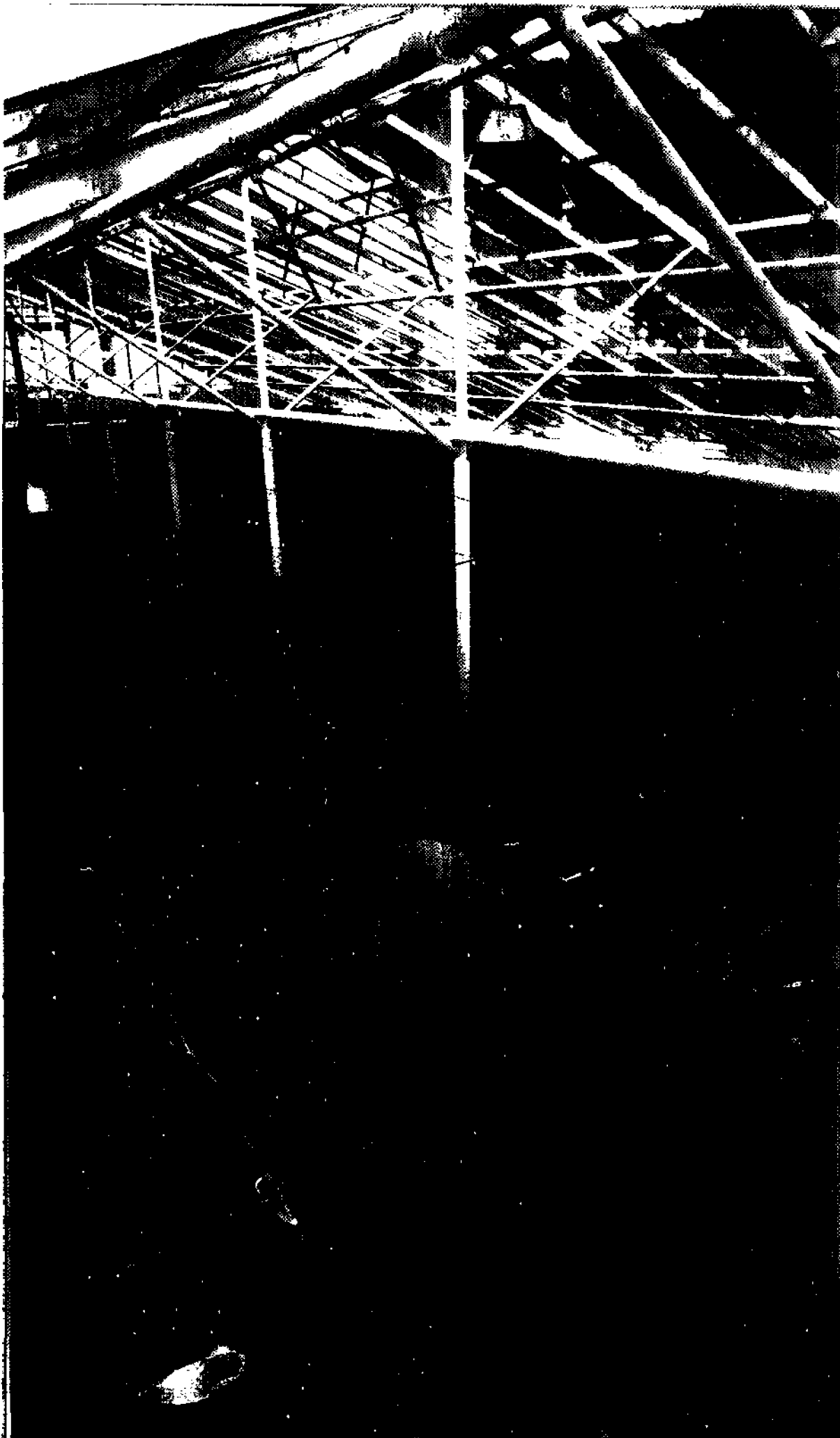
struggle to come up with new ideas, the flexibility of our base of specialty derivatives and the expertise of our scientists interact to create products that customers want. In hairsprays alone, ISP has 20 different resins. They can be fine-tuned for nearly every use. ISP excels in creating products and getting them to customers fast."

Acetylene, a highly reactive and flexible raw material, gives ISP, one of the few companies that has mastered this technology, the unique ability to create families of acetylene based products. Our research and development and manufacturing expertise supports our business objective of increasing the portion of revenues from new products. Our ultimate goal is to have 25 percent of our sales from products developed over the previous five years.

We applied during 1991 more demanding time reduction methods to our product development scheduling. While several years ago a new product might have taken five years from conception to delivery of production quantities, we have slashed this period to less than two years. A shorter development cycle permits ISP to deliver up to 100-pound samples to customers at a much earlier stage, an important factor when pharmaceutical and agricultural end products require governmental approval.

The product development cycle is often reduced even further. It took less than 18 months from the formulation of Stabileze to shipment of one-ton quantities to customers for test marketing in September 1991. And last year when even stricter volatile organic compound standards affecting all hairsprays became effective in California, we responded in less than six months with a new line of Gantrez V products, which not only allowed customers to meet these standards quickly, but provided faster drying times and improved curl retention.





The challenge in agricultural chemicals is to develop herbicides and pesticides which protect crops, yet are safe for humans and the environment. The superior adhesive qualities of ISP's just released family of 14 different EPA-approved Agrimer™ polymers allow farmers to reduce the required amount of pesticide while increasing its effectiveness.

**OPERATING
IN A GLOBAL
MARKETPLACE**

ISP is a global Company. Almost 60 percent of the sales of its specialty derivative chemicals are made in 72 countries outside the United States. We support our worldwide sales with an international distribution network that responds rapidly to customers' needs.

A key to success is to think and act globally. In this regard, ISP is structured to meet the marketing challenges of the 1990s. Over the past eight years, we have achieved an average annual growth rate of 20 percent in international sales. That momentum is due in part to the opening of sales and technical service offices in Hong Kong, Hungary, Ireland, Korea, the People's Republic of China, Portugal, Taiwan, and Thailand.

Our office in the People's Republic of China conducted in 1991 a series of seminars on the application of ISP resins in cosmetics, pharmaceuticals, beer, and agricultural chemicals. Three hundred Chinese scientists attended seminars on how to use ISP specialty derivative chemicals in pharmaceutical products.

We increased butanediol production in 1991 by 10,000 metric tons at GAF-Huls Chemie GmbH, our German joint venture which we manage together with Huls AG. We anticipate announcing plans in 1992 to construct a production facility to make specialty derivatives in Europe. We expect a similar announcement in 1993 for a plant in the Far East.

Consistent with our goal to attain larger overseas sales penetration, we expanded the size of our research facilities and staffing in Singapore and Guildford, England. Global marketing concepts have influenced other aspects of ISP's operations—the designation of marketing managers with worldwide product responsibility, strategic alliances with international consumer product companies, and even an automated voice mail system that operates 24 hours a day.





ISP's 2,000 employees in
the U.S. and overseas
represent a diverse mix of
professional and business
skills. Shown here
are (from left to right,
top to bottom):

ART JAMES
Chemical Operator
Chatham, New Jersey

JACKIE SOLOMON
Laboratory Manager
Chatham, New Jersey

ROGER KIBLER
Senior Laboratory Technician
Hagerstown, Maryland

MATT MACKEY
Laboratory Assistant
Chatham, New Jersey

MARGIE MORGAN
Senior Buyer/Expeditor
Wayne, New Jersey

SUSAN TSENG
Senior Research Chemist
Wayne, New Jersey

ELEANOR CARLSON
Shareholder Relations
Manager
Wayne, New Jersey

JAYANTI PATEL
Staff Chemist
Wayne, New Jersey

OLIVER HOLMES
Mill Operator
Charmian, Pennsylvania

WANDA KNABLE
Purchasing Clerk
Charmian, Pennsylvania

YUNG HUA CHEN
Senior Staff Engineer
Wayne, New Jersey

PAI CASEY
Order Supervisor/Customer
Service Representative
Chatham, New Jersey

seven days a week on a worldwide basis to speed and enhance communications.

"Our worldwide organization is designed to fulfill the needs and objectives of many of our customers," says Ray Smith, Vice President, International. "They think globally. They develop consumer, industrial, and agricultural products for a worldwide market, and they expect ISP to support these global objectives as well."

ISP AND THE ENVIRONMENT

ISP develops products that must meet stringent environmental requirements, including the high standards set by California and regional, national, and international regulators. Health and safety is given a priority at ISP with toxicologists participating in all new product development teams. With growing frequency, ISP benefits from new environmental rulings that restrict or ban the use of other chemicals, particularly chlorinated solvents such as methylene chloride, an acknowledged animal carcinogen, the use of which in a number of applications has already been severely restricted, and which is currently being studied by the United States Consumer Product Safety Commission for a ban in consumer products.

Our basic chemistry results in products that are less volatile, less corrosive, and safer than many others being used. In order to satisfy changing governmental requirements, our customers must improve the safety of their end products, and in many instances ISP specialty derivatives have already been incorporated in newly formulated replacement products.

These growing environmental concerns led to the establishment of a focused marketing group called Engineered Products to concentrate on the formulation and development of safer solvents, designed for specific industrial stripping and cleaning applications, and for use in agricultural products.





*ISP's basic chemistry
produces environmentally
safer solvents, which are
used in a broad range of
household and industrial
cleaners to replace
chlorinated and other
solvents, the use of which
is becoming increasingly
restricted. Stripping and
cleaning woodwork is made
easier and safer with
Woodfritsher's Pride.*

To complete the life cycle of these solvents, ISP provides its customers with an analytical service to characterize the waste stream prior to recycling. We make available a pick-up service to remove the used solvents to an off-site recycling center, or provide technical service assistance for on-site solvent recovery.

We expanded our sale of environmentally sound solvents in 1991 to include the principal ingredients in a new paint and varnish stripper, Woodfinisher's Pride, which because of its improved performance and safety, is in demand by do-it-yourselfers and professionals to replace harsher off-the-shelf consumer paint and varnish strippers, most of which contain methylene chloride. Only one year after market introduction, Woodfinisher's Pride has met with such enthusiastic consumer response that it is now being sold in more than 6,000 retail stores throughout the country.


**QUALITY
STANDARDS
AT ISP
MANUFACTURING
FACILITIES**

When ISP's Texas City plant received ISO 9002 certification in 1991 from the International Standards Organization, the facility became one of approximately 100 American plants to achieve this standard of excellence and only the 20th in the entire chemical industry. The ISO recognition is an accepted international measurement of quality that was established by the Geneva-based International Standards Organization. With this certification, customers know that quality products will be delivered every time, thereby increasing their confidence in the supplier. And in keeping with ISP's global marketing thrust, ISO certification represents a highly regarded standard by which European Economic Community companies can measure a plant's production standards.



**MINERAL
PRODUCTS**

ISP's Mineral Products business supplies colored granules to virtually every manufacturer of asphalt roofing shingles in the United States. Since more than 80 percent of roofing



ISP's colored, ceramic coated granules are critical components in the production of durable and decorative roofing shingles. Our granules improve the aesthetic properties of roofing products and make them more weather resistant and longer lasting. Since reroofing accounts for more than 80 percent of the demand for granules, ISP's Mineral Products business experienced continued sales growth in 1991 despite a low level of new housing starts.

shingles are sold for the replacement market, the Mineral Products business attained significant gains in 1991 despite a weak new home construction market.

ISP's Mineral Products business continues to benefit from two important roofing trends. First, roofing manufacturers are continuing to convert their shingle production from organic to glass fiber substrate, a product that requires 17 percent more granules. Second, substantially increased industry wide production of laminated shingles has accelerated the demand for granules. Compared with lower cost commodity roofing products, laminated shingles use 40 percent more granules. ISP Mineral Products is also the exclusive supplier of the product used in the construction of Har-Tru® all-weather tennis courts.

**FILTER
PRODUCTS**

ISP's Filter Products business expanded its product line of pressure filter vessels, filter bags and filter systems, to include a new line of cartridges and cartridge housings to process liquids in the biotechnology, cosmetic, and electronics industries. We also expanded geographically by entering the United States market with a dedicated sales force and a newly appointed distributor network. ISP filter products are used primarily to treat process liquids in the paint, automotive, chemical, and food and beverage fields.

**ADVANCED
MATERIALS**

Advanced Materials produces approximately 50 different grades of Micropowder® iron used primarily in the aerospace and defense, electronics, powder metallurgy, pharmaceutical, and food industries. Much of the focus of Advanced Materials has been the defense industry where carbonyl iron powders in coatings give "stealth" characteristics to aircraft and naval ships. We also market Ferronyl® brand iron powder, which is used as an iron supplement in vitamins. The FDA-approved product is regarded by medical experts as safer than iron salts for use in vitamins.

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ISP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

GENERAL

In July 1991, International Specialty Products Inc. (the "Company"), a newly formed indirect subsidiary of GAF Corporation ("GAF"), completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock, at an initial public offering price of \$15.50. The Company, through its subsidiaries, operates the businesses and owns substantially all of the operating assets formerly operated and owned by GAF Chemicals Corporation ("GCC"), its direct parent.

The Company was formed in 1991 to acquire, through a stock acquisition, substantially all of the operating businesses then conducted by GCC. GCC transferred (i) to newly formed subsidiaries, its assets and liabilities (other than those relating to certain investments and the capital stock of its existing subsidiaries), and (ii) to the Company, the capital stock of such newly formed subsidiaries, together with the capital stock of its existing operating subsidiaries.

GAF was acquired on March 29, 1989 in a management-led buyout (the "Acquisition") for a total price of \$1.4 billion. The capital structure and accounting bases of the assets and liabilities of the Company subsequent to and as a result of the Acquisition differ from those of the Company's business for periods prior to the Acquisition (the "Predecessor Company"). Consequently, in addition to interest expense incurred on Acquisition borrowings, the Company's results of operations subsequent to the Acquisition reflect non-cash charges that are not applicable to the Predecessor Company, consisting of goodwill amortization and depreciation of increased asset values resulting from the Acquisition. Such non-cash charges amounted to \$19.1 million, \$19 million and \$14 million for the year 1991, the year 1990 and the nine months ended December 31, 1989, respectively.

RESULTS OF OPERATIONS

The following table sets forth certain pro forma operating data for the year 1989, and historical data for the years 1990 and 1991. To facilitate the comparison of results for the three years, data for the year 1989 has been adjusted on a pro forma basis to reflect the Acquisition as if it had been completed on January 1, 1989. Accordingly, goodwill amortization, depreciation of increased asset values and interest expense related to debt incurred in the Acquisition have been reflected for the year 1989. The Company's investment in GAF-Hüls is reflected in the Company's financial statements using the equity method of accounting and the Company's share of the joint venture's earnings is reflected in operating income. See Note 12 of Notes to Consolidated Financial Statements.

(Dollars in Millions)	Historical		Pro Forma Year Ended December 31, 1989 (Unaudited)
	Year Ended December 31, 1991	Year Ended December 31, 1990	
Net sales	\$525.8	\$511.7	\$469.0
Operating income	\$140.5	\$133.1	\$115.9
Interest expense	(52.7)	(85.2)	(93.6)
Other income (expense), net	(8.8)	(2.6)	0.6
Income before income taxes	79.0	45.3	22.9
Income taxes	(28.1)	(14.5)	(13.3)
Net income	\$ 50.9	\$ 30.8	\$ 9.6
Operating margin	26.7%	26.0%	24.7%

1991 COMPARED WITH 1990

In 1991, the Company recorded its ninth consecutive year of increased operating income. Net sales increased by \$14.1 million (3%) to \$525.8 million in 1991 from \$511.7 million in 1990. Operating income was \$140.5 million in 1991, an increase of \$7.4 million (6%) over 1990. Net income increased by \$20.1 million (65%) to \$50.9 million in 1991 from \$30.8 million in 1990.

Specialty derivative chemicals and mineral products contributed to the increase in net sales. Net sales of specialty derivative chemicals increased by \$14.6 million (4%) as a result of higher volumes, an improved product mix, and higher pricing, partially offset by the unfavorable impact of foreign exchange rates. Net sales of mineral products increased by \$2.8 million (3%), due to higher selling prices.

The growth in the Company's operating income resulted primarily from a \$7.4 million (7%) increase in operating income of specialty derivative chemicals, due to the improvement in product mix and higher pricing described above. These gains were partially offset by additional selling, general and administrative expenses and increased new product costs and an unfavorable foreign exchange impact. The operating income of mineral products increased by \$2.2 million (11%).

Interest expense in 1991 was \$52.7 million, a decrease of \$32.5 million from 1990. The decrease was attributable to the repayment of \$299 million of bank debt in 1991, mainly from the proceeds of the initial public offering, and also to a general decline in prevailing interest rates and a reduction in the interest rate pricing provisions applicable to the Company's bank borrowings.

Other income (expense) is comprised of net investment income and other nonoperating and nonrecurring items of income and expense. For the year 1991, the Company had net other expense of \$8.8 million, compared with net other expense of \$2.6 million in 1990. The increased net expense in 1991 was due primarily to a one-time charge of \$8.8 million, representing the Company's portion of the costs in

connection with the termination of the GAF Equity Appreciation Plan upon completion of the initial public offering, and also to lower net investment income in 1991.

1990 COMPARED WITH PRO FORMA 1989

In 1990, the Company recorded its eighth consecutive year of increased operating income. Net sales increased by \$42.1 million (9%) to \$511.7 million in 1990 from \$469.6 million in 1989. Operating income was \$133.1 million in 1990, representing an increase of \$17.2 million (14.8%) over 1989. Net income increased by \$21.2 million to \$30.8 million in 1990 from \$9.6 million in 1989.

Specialty derivative chemicals, mineral products, filter products and advanced materials all contributed to the increase in net sales. Specialty derivative chemicals net sales increased \$31.9 million (8.7%) as a result of the favorable impact of foreign exchange rates of \$20 million; a combination of an improved product mix, new product introductions and higher pricing totaling \$7.8 million; and the inclusion of the full-year results of \$4.1 million of Sutton Laboratories, Inc. ("Sutton"), which the Company acquired in April 1989. Net sales of mineral products increased by \$6 million (7.8%), due to higher unit volumes.

The growth in the Company's operating income resulted primarily from a \$19 million (21.3%) increase in operating income of specialty derivative chemicals, due to the favorable net impact of foreign exchange rates of \$14.1 million, an improvement in margins totaling \$8.3 million attributable to product mix and new product introductions, and the full-year results of Sutton of \$2.4 million. These gains were partially offset by additional selling, general and administrative expenses and increased new product and applicable costs totaling \$5.8 million. The operating income of mineral products was unchanged as gains from higher sales volumes were offset by higher manufacturing costs.

Interest expense in 1990 was \$85.2 million, a decrease of \$8.4 million from the 1989 level. The decrease was attributable to a general decline in prevailing interest rates and a reduction in the interest rate pricing provisions applicable to the Company's bank borrowings.

Other income (expense) is comprised of net investment income and other nonoperating and nonrecurring items of income and expense. For the year 1990, the Company had net other expense of \$2.6 million, compared with net other income of \$.6 million in 1989. The increased net expense in 1990 was due primarily to lower net investment income in 1990.

INCOME TAXES

The tax provision reflected in 1989 on a pro forma basis consists of foreign income taxes only. The effective tax rate, which is a function of the amount of income taxes paid in relation to income before income taxes, decreased from 1989 to 1990 because of a decrease in domestic losses from operations (for which no pro forma taxes are required) and a reduction in the effective tax rate on foreign operations due to foreign tax rate reductions.

The increase in the effective income tax rate from 32.1% for the year 1990 to 35.6% for the year 1991 was attributable to profitable domestic and foreign operations for which domestic and foreign income taxes were provided for 1991.

LIQUIDITY AND FINANCIAL CONDITION

The net proceeds of \$281.3 million from the initial public offering were paid by the Company to G Industries Corp. ("G Industries"), the parent company of GCC, to reduce the Company's intercompany note (the "Intercompany Term Note"). G Industries then used such funds to reduce its \$600 million bank term loan. The remaining term loan amortization payments (and thus the remaining Intercompany Term Note amortization payments) were reduced on a pro rata basis.

In March 1992, two domestic subsidiaries of the Company (the "Issuers") issued \$200 million of 9% Senior Notes (the "Notes") due 1999. The net proceeds from the issuance of the Notes were used by the Company to repay a portion of the Intercompany Term Note to G Industries, and by G Industries to repay a portion of the term loan under the Credit Agreement.

The Notes are general unsecured obligations of the Issuers. Upon issuance of the Notes, the Credit Agreement was amended, with the Issuers assuming G Industries' obligations under the Credit Agreement, including the term loan and the combined revolving credit/letter of credit facility (except for obligations related to letters of credit issued on behalf of GAF Building Materials Corporation, which are limited to \$40 million). In addition, all liens on assets of the Company securing the Bank indebtedness were released, with the result that the remaining Bank indebtedness and the Notes rank pari passu.

As a result of the foregoing, the Company's scheduled repayments of long-term debt for the year 1992 have been reduced to \$25.7 million.

During the year 1991, the Company generated cash flow from operations of \$47.3 million, which was \$3.6 million lower than net income, as \$39.3 million of depreciation, goodwill amortization and deferred taxes were more than offset by an increase in working capital of \$21 million, an increase in other assets of \$12 million mainly resulting from

undistributed equity in income from the GAF-Hüls joint venture, and a decrease in other liabilities of \$6.5 million resulting primarily from expenditures against plant shut-down reserves.

In 1991, the Company invested \$34.4 million in plant and equipment and approximately \$17.8 million in research and development, compared with \$35.6 million and \$16.3 million, respectively, in 1990. Such investments were funded principally by internally generated cash flow. Net cash used for financing activities in 1991 was \$22.1 million, including repayments of long-term and short-term debt totaling \$300.9 million, and dividends and distributions to GCC of \$27.7 million, mostly offset by proceeds of \$281.3 million from the initial public offering and by a capital contribution from GCC of \$25.3 million.

Fluctuations in the value of foreign currencies cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot quantify in any meaningful way the effect of such fluctuations upon future income. This is due to the large number of currencies involved, the constantly changing exposure in these currencies, the fact that all foreign currencies do not react in the same manner against the U.S. dollar, and the complexity of intercompany relationships (including the Company's practice of purchasing Deutsche mark denominated butanediol from GAF-Hüls, which serves to offset in part the adverse effect on net sales and income of a stronger U.S. dollar). The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies. Part of that management includes entering into foreign exchange contracts from time to time in order to hedge a portion of both borrowings denominated in foreign currency and purchase commitments related to the operations of foreign affiliates. Gains and losses on such contracts are deferred and amortization is included in the measurement of the foreign currency transactions hedged. Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The value of such contracts will vary with changes in the market exchange rates. During periods in which the dollar has been strong, the Company has sought to maintain its foreign operating income in dollar terms by offsetting changes in exchange rates with price increases. There can be no assurance that if undertaken in the future, any such efforts will be successful.

The parent corporations of the Company, including GAF, G-I Holdings, G Industries and GCC, are essentially holding companies without independent businesses or operations and, as such, are dependent upon the cash flow of their subsidiaries, including the Company, in order to satisfy their

obligations. For a description of such obligations see Note 16 of Notes to Consolidated Financial Statements. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, cause the Company to make loans to its parent corporations or cause GCC to sell shares of common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries will have a material adverse effect on the operations, liquidity or capital resources of the Company.

Sales, operating income and identifiable assets by geographic area are set forth in Note 14 of Notes to Consolidated Financial Statements. For information with respect to historical income taxes, see Note 5 of Notes to Consolidated Financial Statements.

In December 1990, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." See Note 9 of Notes to Consolidated Financial Statements for a discussion of the potential impact of this new accounting standard on the Company's financial statements. In February 1992, the FASB issued Statement No. 109, "Accounting for Income Taxes", which established financial accounting and reporting standards for the effects of income taxes. The new standard is effective no later than for the year 1993. The Company does not anticipate that the implementation of these pronouncements will have a material adverse effect on the financial position or net income of the Company.

The Company does not believe that inflation has had a material effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

SELECTED FINANCIAL DATA

Set forth below are selected consolidated financial data of the Company and the Predecessor Company. The capital structure and accounting bases of the assets and liabilities of the Company subsequent to April 2, 1989 differ from those of the Predecessor Company for prior periods as a result of the Acquisition. Financial data of the Predecessor Company are presented on a historical cost basis. Financial data of the Company reflect the Acquisition under the purchase method of accounting. Accordingly, financial data for periods subsequent to the Acquisition are not comparable to data for

periods prior thereto, because the periods subsequent to the Acquisition reflect interest expense on Acquisition borrowings as well as non-cash charges that are not applicable to the Predecessor Company, consisting of goodwill amortization and depreciation of increased asset values resulting from the Acquisition. Such non-cash charges amounted to \$19.1 million, \$19 million and \$14 million for the year 1991, the year 1990 and the nine months ended December 31, 1989, respectively.

(Dollars in Thousands)	Company			Predecessor Company			
	Year Ended December 31,		Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989	Year Ended December 31,		
	1991	1990			1988	1987	1986
Operating data:							
Net sales	\$ 525,786	\$ 511,652	\$ 354,677	\$114,885	\$406,735	\$362,075	\$310,768
Operating income	140,522	133,056	89,261	30,998	97,869	93,101	76,836
Interest expense	52,693	85,224	66,434	2,032	7,211	6,550	4,947
Income before income taxes	78,968	45,323	23,170	29,244	93,708	91,532	67,891
Net income	50,855	30,768	12,349	18,248	61,204	55,592	42,332
Other data:							
Operating margin	26.7%	26.0%	25.2%	27.0%	24.1%	25.7%	24.7%
Depreciation	\$ 19,719	\$ 18,780	\$ 11,995	\$ 2,314	\$ 8,689	\$ 7,767	\$ 9,625
Goodwill							
amortization	14,067	13,996	10,242	—	—	—	—
Capital expenditures	34,422	35,627	22,909	3,837	40,575	28,889	9,967
	Company			Predecessor Company			
	1991	December 31, 1990	1989		1988	December 31, 1987	1986
Balance Sheet data:							
Working capital	\$ 89,649	\$ 65,658	\$ 95,400		\$ 46,586	\$ 70,442	\$ 59,346
Total assets	1,074,724	1,064,496	1,057,794		339,653	326,235	254,955
Long-term debt	413,746	698,044	734,018		71,677	73,761	68,433
Stockholders' equity	484,372	154,987	143,921		122,131	118,231	73,302

CONSOLIDATED STATEMENTS OF INCOME

	Company			Predecessor Company
	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
<i>(In thousands, except per share amounts)</i>				
Net sales	\$525,786	\$511,652	\$354,677	\$114,885
Costs and expenses:				
Cost of products sold	268,255	269,040	194,012	64,391
Selling, general and administrative	102,942	95,560	61,162	19,496
Goodwill amortization	14,067	13,996	10,242	-
Total costs and expenses	385,264	378,596	265,416	83,887
Operating income	140,522	133,056	89,261	30,998
Interest expense	(52,693)	(85,224)	(66,434)	(2,032)
Provision for termination of Equity Appreciation Plan	(3,843)	-	-	-
Other income (expense), net	(5,018)	(2,509)	343	278
Income before income taxes	78,968	45,323	23,170	29,244
Income taxes	(28,113)	(14,555)	(10,821)	(10,996)
Net income	\$ 50,855	\$ 30,768	\$ 12,349	\$ 18,248

Earnings per common share	\$.56	\$.38	\$.15	N/A
Weighted average number of common shares outstanding	90,194	80,500	80,500	N/A

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(Thousands)	December 31,	
	1991	1990
Assets		
Current Assets:		
Cash and cash equivalents	\$ 10,085	\$ 19,317
Accounts receivable, less reserve:		
1991— \$2,221, 1990—\$2,433	72,023	80,775
Inventories	93,836	83,716
Other current assets	11,707	9,488
Receivable from related parties	6,587	3,421
Total Current Assets	194,238	196,717
Property, Plant and Equipment, net	338,737	324,037
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$38,305 and \$24,238, respectively	488,428	502,445
Other assets	53,321	41,297
Total Assets	\$1,074,724	\$1,064,496
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt and current maturities of long-term debt	\$ 7,069	\$ 9,767
Current maturities of Intercompany Term Note	18,694	32,500
Accounts payable	36,507	38,289
Accrued liabilities	36,932	41,570
Income taxes	5,387	8,933
Total Current Liabilities	104,589	131,059
Long-term debt less current maturities	61,445	68,319
Intercompany Term Note	282,301	567,500
Borrowings under Intercompany Revolving Note	70,000	62,225
Deferred income taxes	39,058	33,526
Other liabilities	32,959	46,880
Commitments and contingencies		
Stockholders' Equity:		
Capital stock and additional paid-in capital	506,041	199,433
Excess of purchase price over adjusted historical cost of Predecessor Parent Company shares owned by Predecessor Parent Company stockholders	(63,483)	(63,483)
Retained earnings	23,160	—
Cumulative translation adjustment and other	18,654	19,037
Total Stockholders' Equity	484,372	154,987
Total Liabilities and Stockholders' Equity	\$1,074,724	\$1,064,496

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)	Company			Predecessor Company
	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Cash and cash equivalents, beginning of period	\$ 19,317	\$ 18,309	\$ —	\$ 34,828
Cash Flows from Operating Activities:				
Net income	50,855	30,768	12,349	18,248
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	19,719	18,780	11,995	2,314
Goodwill amortization	14,067	13,996	10,242	-
Deferred income taxes	5,532	5,090	8,083	1,741
(Increase) decrease in working capital	(20,989)	(5,517)	(30,745)	(14,548)
(Increase) decrease in other assets	(12,024)	(658)	(3,443)	(2,194)
Increase (decrease) in other liabilities	(6,485)	(8,717)	22,108	(2)
(Increase) decrease in receivable from related parties	(3,166)	3,509	(7,278)	3,863
Other, net	(189)	2,326	(3,340)	379
Net cash provided by operating activities	47,320	59,577	19,971	9,801
Cash Flows from Investing Activities:				
Capital expenditures	(34,422)	(35,627)	(22,909)	(3,837)
Acquisition of Predecessor Company, net of cash acquired	—	—	(585,323)	—
Acquisition of Sutton Laboratories, net of cash acquired	—	—	(31,975)	—
Net cash used in investing activities	(34,422)	(35,627)	(640,207)	(3,837)
Cash Flows from Financing Activities:				
Proceeds from initial public offering	281,272	—	—	—
Increase (decrease) in short-term debt	(9,212)	1,008	(1,137)	2,285
Proceeds from debt incurred to acquire Predecessor Parent Company	—	—	611,144	—
Proceeds from debt financing	—	653,000	56,978	—
Repayments of long-term debt	(291,680)	(657,966)	(6,140)	—
Change in cumulative translation adjustment	(215)	11,610	7,427	(2,928)
Dividends and distributions to GCC	(27,695)	(31,312)	(30,301)	(18,248)
Capital contribution by GCC	25,336	—	—	4,149
Other, net	64	718	574	(238)
Net cash provided by (used in) financing activities	(22,130)	(22,942)	638,545	(14,980)
Net change in cash and cash equivalents	(9,232)	1,008	18,309	(9,016)
Cash and cash equivalents, end of period	\$ 10,085	\$ 19,317	\$ 18,309	\$ 25,812

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Thousands)	Company			Predecessor Company
	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Supplemental Cash Flow Information:				
(Increase) decrease in working capital items:				
Accounts receivable	\$ 8,752	\$ (1,228)	\$ (416)	\$ (17,946)
Inventories	(10,120)	(10,299)	(9,312)	3,368
Other current assets	(2,219)	3,531	(1,921)	(1,630)
Accounts payable	(1,782)	(6,581)	(1,223)	(2,123)
Accrued liabilities	(12,074)	8,044	(10,986)	(711)
Income taxes	(3,546)	1,016	(6,887)	4,494
Net (increase) decrease in working capital items	\$(20,989)	\$ (5,517)	\$ (30,745)	\$ (14,548)
Cash paid during the period for:				
Interest	\$ 55,577	\$ 93,544	\$ 61,920	\$ 1,807
Income taxes (including taxes paid pursuant to Tax Sharing Agreement)	25,211	8,443	9,625	4,761
Acquisition of Sutton Laboratories, net of cash acquired:				
Fair market value of assets acquired			\$ 32,907	
Purchase price of acquisition			(31,975)	
Liabilities assumed			\$ 932	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Thousands)	Capital Stock and Additional Paid-in Capital	Cumulative Translation Adjustment and Other	Retained Earnings
April 2, 1989	\$217,929	\$ —	\$ —
Net income	—	—	12,349
Translation adjustment	—	7,427	—
Dividends and distributions to GCC	(17,952)	—	(12,349)
December 31, 1989	\$199,977	\$ 7,427	\$ —
Net income	—	—	30,768
Translation adjustment	—	11,610	—
Dividends and distributions to GCC	(544)	—	(30,768)
December 31, 1990	\$199,433	\$19,037	\$ —
Net income	—	—	50,855
Proceeds from initial public offering	281,272	—	—
Translation adjustment	—	(215)	—
Dividends and distributions to GCC	—	—	(27,695)
Capital contribution by GCC	25,336	—	—
Unfunded pension liability	—	(168)	—
December 31, 1991	\$506,041	\$18,654	\$ 23,160

PREDECESSOR COMPANY

January 1, 1989	\$110,064	\$12,067	\$ —
Net income	—	—	18,248
Translation adjustment	—	(2,928)	—
Dividends and distributions to GCC	—	—	(18,248)
Capital contribution by GCC	4,149	—	—
April 2, 1989	\$114,213	\$ 9,139	\$ —

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE

1

FORMATION OF THE COMPANY

International Specialty Products Inc. (the "Company") was formed on April 25, 1991 and is an 80.6% owned subsidiary of GAF Chemicals Corporation ("GCC"), which is a wholly owned subsidiary of G Industries Corp. ("G Industries"). The authorized capital stock of the Company consists of 300,000,000 shares of common stock (par value \$.01 per share) and 20,000,000 shares of preferred stock (par value \$.01 per share). On April 26, 1991, the Company issued 10 shares of its common stock to GCC in exchange for \$10.00. The Company acquired all the shares of the capital stock of the subsidiaries of GCC which own substantially all of GCC's operating assets. The Company and its subsidiaries also assumed GCC's liabilities related to such assets and certain intercompany notes (see Note 8). In connection with these transactions, the Company issued an additional 80,499,990 shares of its common stock to GCC and entered into certain agreements with its affiliates (see Notes 5, 8 and 11).

The accompanying consolidated financial statements have been prepared on a basis which retroactively reflects the formation of the Company, as discussed above, for all periods presented. Stockholders' equity, long-term debt and the related interest expense and income tax effect thereon have been reflected retroactively for each of the periods presented. Excess cash generated prior to July 1, 1991 has been reflected as dividends and/or distributions to GCC for all periods presented. Certain allocations between GCC and the Company have been reflected in the historical financial statements based on methods that management believes to be reasonable (see Note 11).

A predecessor company to GAF Corporation (the "Predecessor Parent Company") was acquired on March 29, 1989 in a management-led buyout (the "Acquisition"). Newco Holdings, Inc. (which subsequently changed its name to GAF Corporation) ("GAF"), together with its wholly owned subsidiary, G-I Holdings, Inc. ("G-I Holdings"), and its wholly owned subsidiary, G Industries, were established to effect the Acquisition. The total Acquisition consideration of \$1.423 billion was financed in part by the Predecessor Parent Company's cash on hand and by borrowings from banks and others. The original bank borrowings were replaced by a long-term financing arrangement in September 1990 (see Note 8).

The Acquisition was accounted for under the purchase method of accounting. Accordingly, the historical book values of the assets and liabilities of GCC's predecessor company prior to the Acquisition (the "Predecessor Company")

were adjusted to their fair values, as estimated at March 29, 1989. As a result, an excess of cost over net assets of businesses acquired ("goodwill") related to the Company of \$498.9 million was recorded. Such amount was based on the excess of the Acquisition consideration allocated to the Company over the estimated fair market value as of March 29, 1989 of the assets and liabilities of the Company.

Since certain members of the management group beneficially owned shares of the Predecessor Parent Company's common stock before the Acquisition and own shares of GAF after the Acquisition, the purchase method of accounting does not apply to their shares of the Predecessor Parent Company. Accordingly, for accounting purposes, stockholders' equity reflects the total shares of the Predecessor Parent Company owned by the management group at their respective adjusted historical costs, reduced by the consideration paid by GAF for the Predecessor Parent Company shares owned by the management group (including payments by the Predecessor Parent Company to cancel outstanding options for stock of the Predecessor Parent Company), resulting in a total reduction in stockholders' equity of \$72.6 million, computed as shown below, of which \$63.5 million was allocated to the Company based on the ratio of the fair value of the Company's net assets to the total Acquisition consideration.

(Thousands)

Aggregate actual historical cost (to the management group) of the Predecessor Parent Company shares owned by the management group	\$ 23,621
Management group's proportionate share of the Predecessor Parent Company book value	65,727
Adjusted historical cost (to the management group) of the Predecessor Parent Company shares owned by the management group	89,348
Less: consideration paid by GAF to the management group for the Predecessor Parent Company shares owned by the management group	(161,953)
Excess of purchase price paid by GAF to the management group for the Predecessor Parent Company shares over the adjusted historical cost (to the management group) of the Predecessor Parent Company shares owned by the management group	(72,605)
Less: amounts related to other affiliates	9,122
Amount related to the Company	\$ (63,483)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE

2

INITIAL PUBLIC OFFERING

In July 1991, the Company completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock, at a price of \$15.50 before underwriters' discount. The net proceeds of \$281.3 million from the initial public offering were paid by the Company to G Industries to reduce the Company's Intercompany Term Note (see Note 8). G Industries then used such funds to reduce its \$600 million bank term loan. The remaining term loan amortization payments (and thus the remaining Intercompany Term Note amortization payments) were reduced on a pro rata basis.

NOTE

3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accounts of all of the Company's subsidiaries are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. The 50% ownership of a foreign chemical manufacturing company is accounted for by the equity method (see Note 12).

Cash Equivalents

The Company considers highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on average cost.

Depreciation and Capitalized Interest

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized as part of the cost of property, plant and equipment.

Foreign Exchange Contracts

The Company enters into a variety of foreign exchange instruments in order to hedge a portion of both its borrowings denominated in foreign currency and its purchase commitments related to the operations of foreign affiliates.

Gains and losses on such instruments are deferred and amortization is included in the measurement of the foreign currency transactions hedged. Forward contract agreements entered into from time to time require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The value of such contracts will vary with changes in the market exchange rates.

Translation of Foreign Currency Amounts

For non-U.S. subsidiaries which operate in a local currency environment, assets and liabilities are translated to U.S. dollars at year-end exchange rates. Translation adjustments are accumulated in a separate component of stockholders' equity, "Cumulative translation adjustment." Income and expense items are translated at average rates of exchange during the year.

For non-U.S. subsidiaries which operate in a highly inflationary environment, inventories, fixed assets and investments are translated at historical rates as of the dates of acquisition, while other assets and liabilities are translated at year-end exchange rates. Inventories charged to cost of sales and depreciation expense are remeasured at historical rates, while all other income and expense items are translated at average rates of exchange during the year. Gains and losses resulting from translation are included in other income (expense), net.

Excess of Cost Over Net Assets of Businesses Acquired

Excess of cost over net assets of businesses acquired is amortized on the straight-line method over a period of approximately 40 years.

Research and Development

Research and development expenses are charged to operations as incurred and amounted to \$17.8 million for the year 1991, \$16.3 million for the year 1990, \$9.5 million for the nine months ended December 31, 1989, and, for the Predecessor Company, \$3.6 million for the first quarter ended April 2, 1989.

NOTE

4

PRO FORMA FINANCIAL INFORMATION

Presented below are condensed statements of operations for the years 1991 and 1990 on a historical basis and an unaudited pro forma statement of operations for the year 1989, prepared as if the Acquisition (discussed in Note 1) had occurred on January 1, 1989. The pro forma statement reflects adjustments for expenses attributable to the Acquisition, including interest expense arising from Acquisition debt, goodwill amortization and depreciation related to the writeup of plant and equipment to estimated fair value. The pro forma statement also reflects the elimination of historical Federal and state income taxes.

(Millions)	Historical Year Ended		Pro Forma Year
	December 31, 1991	1990	Ended December 31, 1989
Net sales	\$525.8	\$511.7	\$469.6
Costs and expenses	371.2	364.6	340.3
Goodwill amortization	14.1	14.0	13.4
Operating income	140.5	133.1	115.9
Interest expense	(52.7)	(85.2)	(93.6)
Other income (expense), net	(8.8)	(2.6)	0.6
Income before income taxes	79.0	45.3	22.9
Income taxes	(28.1)	(14.5)	(13.3)
Net income	\$ 50.9	\$ 30.8	\$ 9.6

Pro forma interest expense for the year 1989 was calculated assuming that debt incurred in connection with the Acquisition was outstanding as of January 1, 1989, and that such debt had borne interest at the rates that would have been in effect during 1989. Such debt consisted of a \$499 million bank term loan, a revolving credit facility with an average of \$90 million outstanding, and \$48 million of 16% Senior Increasing Rate Notes. Pro forma interest expense for 1989 does not give retroactive effect to the repayment of term debt with the proceeds of the sale of common stock in July 1991.

Federal and state income taxes were not provided on a pro forma basis in 1989 because the aforementioned interest deduction attributable to the Acquisition debt eliminated the need for a Federal or state tax provision. However, the foreign tax expense for 1989 has remained unchanged from the historical financial statements.

On April 10, 1989, the Company acquired Sutton Laboratories, Inc. ("Sutton") for \$32 million. The acquisition was accounted for as a purchase. Accordingly, the results of Sutton have been included from the date of acquisition in both the Consolidated Statement of Income for the nine months ended December 31, 1989 and the pro forma statement of operations for the year 1989.

NOTE

5

INCOME TAXES

Income tax provision consists of the following:

(Thousands)	Company		Predecessor Company
	Year Ended December 31, 1991	Nine Months Ended December 31, 1990	First Quarter Ended April 2, 1989
Federal—			
Current	\$(14,225)	\$ 5,090	\$ 6,501
Deferred	(5,532)	(5,090)	(8,083)
Total Federal	(19,757)	--	(1,582)
Foreign	(7,440)	(14,455)	(9,239)
State and local	(916)	(100)	—
Income tax provision	\$(28,113)	\$(14,555)	\$(10,821)
			\$(10,996)

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pretax income and the actual tax provision are as follows:

(Thousands)	Company		Predecessor Company
	Year Ended December 31, 1991	Nine Months Ended December 31, 1990	First Quarter Ended April 2, 1989
Statutory provision	\$(26,849)	\$(15,410)	\$ (7,878)
Impact of foreign operations	3,933	5,362	233
Goodwill amortization	(4,783)	(4,759)	(3,462)
Additional depreciation expense resulting from the Acquisition	(1,707)	(1,707)	(1,280)
Percentage depletion	1,947	2,078	1,692
Other, net	(654)	(119)	(126)
Income tax provision	\$(28,113)	\$(14,555)	\$(10,821)
			\$(10,996)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effect of timing differences relates to transactions recorded for financial reporting purposes in a period different from that in which such transactions are reported for income tax purposes. The nature of these differences and the tax effect of each were as follows:

(Thousands)	Company		Predecessor Company
	Year Ended December 31, 1991	Year Ended December 31, 1990	First Quarter Ended April 2, 1989
Tax depreciation over book depreciation	\$ (2,235)	\$ (5,105)	\$ (3,292)
Foreign exchange losses (deductible) not deductible for tax purposes	(613)	413	—
(Deductible) non-deductible adjustment for inventory valuation reserves	339	479	(1,818)
Provisions charged against book income, net	(2,822)	(1,005)	(2,853)
Other, net	(201)	128	(120)
Tax effect of timing differences	\$ (5,532)	\$ (5,090)	\$ (8,083)
			\$ (1,741)

Prior to adoption of the Tax Sharing Agreement discussed below, the tax provision was calculated on a separate company basis. The accompanying financial statements do not give retroactive effect to the Tax Sharing Agreement prior to January 1, 1991. The Company has recorded a deferred tax liability which represents the amount of income taxes payable to GAF with respect to income already recorded in the financial statements but which will not become taxable until a future year.

The Company and each of its domestic subsidiaries have entered into an agreement ("Tax Sharing Agreement") with GAF and G Industries with respect to the payment of Federal income taxes and certain related matters. During the term of the Tax Sharing Agreement, the Company is obligated to pay to G Industries an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own separate Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes—i.e., losses, deductions and credits (except for a limited amount of foreign tax credits and, in general, net operating losses), only at the time such attributes reduce the Federal income tax liability of the GAF group; and that the Company may carry back or carry forward its favorable

tax attributes only after taking into account current tax attributes of the GAF group. In general, subject to the foregoing limitations, unused tax attributes will carry forward for use in reducing amounts payable by the Company to G Industries in future years. Subject to certain exceptions, actual payment for such attributes will be made by G Industries to the Company only when GAF receives an actual refund of tax from the Internal Revenue Service or, under certain circumstances, when GAF no longer owns more than 50% of the Company. Foreign tax credits not utilized will be refunded by G Industries to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration.

The provisions of the Tax Sharing Agreement could result in the Company having greater liability thereunder than it would have had if it (and its domestic subsidiaries) had filed its own separate Federal income tax return. Moreover, under the Tax Sharing Agreement, the Company and each of its domestic subsidiaries are responsible for any taxes that would be payable by reason of any adjustment to the tax returns of GAF or its subsidiaries for prior years relating to the business or assets of the Company or any of its domestic subsidiaries; in addition, the other subsidiaries of the Company are responsible for their respective taxes. The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, GAF makes all decisions with respect to all matters relating to taxes of the GAF consolidated group.

The Company and each of its domestic subsidiaries join in the filing of a consolidated Federal income tax return with GAF. As members of the GAF consolidated group, the Company and each of its domestic subsidiaries are jointly and severally liable for all Federal income tax liabilities of every member of the GAF consolidated group, including tax liabilities not related to the business or assets of the Company and its domestic subsidiaries.

Income taxes payable at December 31, 1991 include \$1.4 million payable to the Company's parent.

In February 1992, the Financial Accounting Standards Board issued Statement No. 109, "Accounting for Income Taxes", which established financial accounting and reporting standards for the effects of income taxes. The new standard is effective no later than for the year 1993. At the date the Company adopts the new accounting rules, it may record the entire catch-up effect in that year or it may retroactively restate prior financial statements, including the financial statements presented herein. The Company does not anticipate that the implementation of this new standard will have a material adverse effect on its financial position or results of operations.

NOTE

6

INVENTORIES

A substantial portion of domestic inventories is valued using the LIFO method. As a result of the Acquisition, there is no material difference between inventories valued at LIFO and average cost.

Inventories consist of the following:

(Thousands)	December 31,	
	1991	1990
Finished goods	\$58,995	\$52,202
Work in process	18,196	14,535
Raw materials and supplies	16,645	16,979
Inventories	\$93,836	\$83,716

NOTE

7

PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consists of the following:

(Thousands)	December 31,	
	1991	1990
Land and land improvements	\$ 40,414	\$ 39,908
Buildings and building equipment	54,959	52,679
Machinery and equipment	263,784	239,623
Construction in progress	26,054	20,102
Total	385,211	352,312
Less accumulated depreciation	(46,474)	(28,275)
Property, Plant and Equipment, net	\$338,737	\$324,037

NOTE

8

LONG-TERM DEBT

Long-term debt consists of the following:

(Thousands)	December 31,	
	1991	1990
Intercompany Term Note	\$300,995	\$600,000
Borrowings under Intercompany Revolving Note	70,000	62,225
Industrial revenue bonds	3,551	4,001
Obligations on mortgaged properties	44,519	44,455
10 $\frac{1}{4}$ % Senior Subordinated Notes due 1994	13,684	13,684
11 $\frac{1}{4}$ % Senior Subordinated Notes due 1995	6,745	6,745
Unamortized discount	(90)	(116)
Total long-term debt	439,404	730,994
Less current maturities	(25,658)	(32,950)
Long-term debt less current maturities	\$413,746	\$698,044

See Note 17 for information in connection with the issuance of new debt and an amendment to the Credit Agreement discussed below, in March 1992.

The Company has entered into an Intercompany Credit Agreement with G Industries, pursuant to which the Company has the right to obtain loans and the issuance of letters of credit under the Credit Agreement dated as of September 17, 1990, as amended ("Credit Agreement"), between G Industries and the financial institutions party thereto (the "Banks") which makes available to G Industries a five-year \$200 million combined revolving loan and letter of credit facility (subject to reduction by up to \$50 million in January 1994). Pursuant to the Intercompany Credit Agreement, G Industries makes borrowings of revolving loans and obtains the issuance of letters of credit at the request of the Company. The proceeds of such borrowings are loaned by G Industries to the Company pursuant to an intercompany note (the "Intercompany Revolving Note") that mirrors the terms of the revolving credit facility under the Credit Agreement.

In addition, the Company is obligated pursuant to an intercompany note to G Industries for a term loan (the "Intercompany Term Note") under the Credit Agreement, of which \$301 million is outstanding as of December 31, 1991 (see Note 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Intercompany Credit Agreement permits G Industries to incur "Affiliate Obligations" by obtaining the issuance of up to \$50 million of letters of credit under the Credit Agreement for the benefit of certain subsidiaries of G Industries other than the Company and its subsidiaries (the "Non-ISP Letters of Credit") and by obtaining revolving loans under the Credit Agreement to pay reimbursement obligations arising in connection with drawings on Non-ISP Letters of Credit (the "Non-ISP Revolving Loans").

The Company and certain of its subsidiaries have guaranteed, on a joint and several basis, the assets of the Company and its domestic subsidiaries, and 65% of the capital stock of its foreign subsidiaries are pledged to the Banks to secure all of the obligations of G Industries under the Credit Agreement. The stock of the Company owned by GCC has also been pledged to secure all of G Industries' obligations under the Credit Agreement.

A default by G Industries in respect of any Affiliate Obligations, or by G Industries or affiliates of the Company with respect to covenants under the Credit Agreement or the guarantees, could result in the obligations under the Credit Agreement being accelerated. In addition, the Credit Agreement provides for a cross-default in the event of a default under certain debentures issued by G-I Holdings. In the event G Industries or any other party to the Credit Agreement fails to perform its obligations under the Credit Agreement, the Banks could require the Company and its subsidiaries to perform such obligations pursuant to the terms of their respective guarantees. In such event, the Banks could foreclose upon or sell the assets of the Company and its subsidiaries pledged as collateral (other than to recover amounts outstanding under the Affiliate Obligations). The Banks could also foreclose on the common stock pledged by GCC as collateral, in which event voting control of the Company and its subsidiaries could shift from GAF to the Banks or any party to which the Banks may subsequently transfer their interests in such stock.

In addition, under the Intercompany Credit Agreement, the Company may lend up to \$50 million to G Industries and its subsidiaries. The Company has entered into an agreement with such subsidiaries pursuant to which it makes loans, which loans are payable upon demand and bear interest at market rates. The loans are evidenced by intercompany promissory notes that are pledged to secure the obligations of G Industries under the Credit Agreement.

The Intercompany Term Note matures on September 17, 1998 and the intercompany revolving notes are due and payable on September 17, 1995. Borrowings under the Intercompany Credit Agreement bear interest at a rate (8% on December 31, 1991) based on the Banks' base rate (as defined) or a Eurodollar rate (as defined), at the option of the Company.

A covenant in the Credit Agreement provides that the

Company may not pay dividends (i) that exceed 10% of the Company's consolidated net income or (ii) upon the occurrence and during the continuance of an event of default under the Credit Agreement.

The Company is contingently liable under letters of credit issued on its behalf under the Intercompany Credit Agreement aggregating \$19.5 million as of December 31, 1991.

As of December 31, 1991, after giving effect to \$61.7 million of letters of credit outstanding at G Industries, and to outstanding borrowings, the amount remaining available under the Intercompany Revolving Note was \$68.3 million.

In connection with the Acquisition, the Predecessor Parent Company conducted tender offers for its 11 $\frac{3}{8}$ % Senior Subordinated Notes due 1995 and 10 $\frac{3}{8}$ % Senior Subordinated Notes due 1994, and accepted for payment all validly tendered securities constituting approximately 95% and 91%, respectively, of each issue.

The aggregate maturities of long-term debt as of December 31, 1991 for the next five years are as follows:

(Thousands)	
1992	\$ 25,658
1993	22,456
1994	42,068
1995	108,435
1996	4,955

In the above table, 1995 maturities include the \$70 million of borrowings outstanding under the Intercompany Revolving Note as of December 31, 1991.

NOTE

9

BENEFIT PLANS

Eligible, full-time employees of the Company are covered by one or more of GAF's various benefit plans, including the GAF Capital Accumulation Plan for Salaried Employees, the Retirement Plan for Hourly Employees, and a nonqualified retirement plan for the benefit of certain key employees.

Defined Contribution Plan

The GAF Capital Accumulation Plan is a defined contribution plan for eligible salaried employees. The Company contributes 3% of participants' compensation, plus matching contributions up to an additional 4% of compensation for participants who make voluntary contributions. Each participant is fully vested at all times in the balance of his account. The aggregate contributions made by the Company to the plan and charged to operations were \$2,832,000 for the year 1991, \$2,770,000 for the year 1990, and \$2,077,000 for the nine months ended December 31, 1989, and, by the Predecessor Company, \$790,000 for the first quarter ended April 2, 1989.

Defined Benefit Plans

The Company participates in GAF's Retirement Plan for Hourly Employees (the "GAF Retirement Plan"), which is a noncontributory defined benefit plan. Benefits under this plan are based on stated amounts for each year of service. GAF's funding policy is consistent with the minimum funding requirements of ERISA, plus any additional amounts which GAF may determine to be appropriate.

Because the Company participates in the GAF Retirement Plan, data presented below is for such plan as a whole.

GAF's net periodic pension cost for the GAF Retirement Plan included the following components:

(Thousands)	GAF		Predecessor Parent Company	
	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Service cost	\$ 891	\$ 884	\$561	\$187
Interest cost	1,194	980	585	195
Actual return on plan assets	(649)	(530)	(256)	(85)
Net deferral and amortization	103	150	91	30
Net periodic pension cost	\$1,539	\$1,484	\$981	\$327

Pension expense charged to operations by the Company with respect to its participation in the GAF Retirement Plan was \$1,035,000 for the year 1991, \$811,000 for the year 1990, and \$522,000 for the nine months ended December 31, 1989, and, by the Predecessor Company, \$174,000 for the first quarter ended April 2, 1989.

The following table sets forth the funded status of the GAF Retirement Plan:

(Thousands)	December 31,	
	1991	1990
Accumulated benefit obligation:		
Vested	\$13,080	\$10,319
Nonvested	2,620	2,721
Total accumulated benefit obligation	\$15,700	\$13,040
Projected benefit obligation	\$15,700	\$13,040
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(9,204)	(6,719)
GAF's projected benefit obligation in excess of plan assets	6,496	6,321
Unrecognized prior service cost	(1,736)	(1,657)
Unrecognized net gain (loss)	(259)	(307)
GAF's unfunded accrued pension cost	\$ 4,501	\$ 4,357
The Company's portion of GAF's projected benefit obligation in excess of plan assets	\$ 3,667	\$ 2,392

The difference of \$2 million between the projected benefit obligation in excess of plan assets and the unfunded accrued pension cost as of December 31, 1991 has been recorded by GAF as an unfunded liability. Of that amount, \$1,145,000 has been recorded by the Company as a liability, offset by an intangible asset of \$977,000 and a reduction of stockholders' equity of \$168,000.

In determining the projected benefit obligation, the weighted average assumed discount rate was 8.75% and 9.25% for 1991 and 1990, respectively. The expected long-term rate of return on assets used in determining net periodic pension cost was 9% and 8% for 1991 and 1990, respectively.

GAF has a nonqualified defined benefit retirement plan for the benefit of certain key employees, including certain employees of the Company. Expense accrued by the Company for future obligations under this plan was \$442,000 for the year 1991, \$367,000 for the year 1990, and \$329,000 for the nine months ended December 31, 1989, and, by the Predecessor Company, \$61,000 for the first quarter ended April 2, 1989. Employees who participate in this plan are not entitled to have employer contributions made to their account under the GAF Capital Accumulation Plan.

Other Benefit Plans

GAF maintained an Equity Appreciation Plan, which was terminated upon completion of the initial public offering. As a result, the Company's 1991 results reflect a one-time charge of \$3.8 million, representing the Company's portion of the costs in connection with the plan termination.

In addition to providing pension benefits, GAF presently provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost to the Company of retiree health care and life insurance benefits for the year 1991, the year 1990, and the nine months ended December 31, 1989 approximated \$1.9 million, \$2.6 million and \$1.5 million, respectively, and, to the Predecessor Company, \$.6 million for the first quarter ended April 2, 1989.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new standard requires that the expected costs of these benefits be recognized in the financial statements over an employee's active working career. The Company presently recognizes this expense as claims are

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

incurred. Adoption of the new standard is required no later than for the year 1993.

Adoption of the new standard will create a previously unrecognized obligation covering prior years with respect to both existing retirees and active employees. This obligation may be recognized in future financial statements in one of two ways: (1) by immediate recognition through a cumulative catch-up adjustment in the statement of income, based on the discounted present value of expected future benefits attributable to service rendered prior to adoption of the new standard, or (2) prospectively, by amortizing the obligation on a straight-line basis over the average remaining service period of active plan participants.

GAF's actuaries have made a preliminary review of the potential effects of the new accounting standard, using 1991 data. Their estimates are subject to change based on a number of factors, including changes in the assumed health care cost trend rate used in the calculations. Based on such review, GAF's postretirement benefit obligation at December 31, 1991, measured in accordance with the new standard, would be approximately \$82 million, of which GAF has already provided approximately \$9.3 million. If the new standard had been adopted prospectively in 1991, the actuaries estimate that GAF's pretax postretirement benefit expense provision for 1991 would have been approximately \$12 million. GAF's pretax expense provision for 1991 was approximately \$3.6 million, of which approximately \$1.9 million was charged to the Company. The new accounting method will have no effect on the Company's cash outlays for retiree benefits.

NOTE

10

STOCK OPTION PLAN

The 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of the Company's common stock. Options may be either options intended to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code ("Code") or "nonqualified" stock options for purposes of the Code. The exercise price of options granted must be at least equal to the Fair Market Value (as defined in the 1991 Incentive Plan) of such shares on the date of grant.

During 1991, 836,948 options were granted at an exercise price of \$12.25, all of which were outstanding at December 31, 1991. The term of each option is generally five years and 60 days. Options may not be exercised during the first year after the date of grant. Thereafter, each option becomes exercisable as to 20%, 40%, 60%, 80% and 100% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant.

Notwithstanding any other provision of the 1991 Incentive Plan, the Compensation and Pension Committee may prohibit the exercise of any or all options to purchase shares of common stock if it pays the option holder an amount equal to the difference between the aggregate Fair Market Value of the shares subject to such options and the aggregate option price. Such amount shall be paid in cash or any combination of cash and common stock at the election of the Compensation and Pension Committee.

NOTE

11

RELATED PARTY TRANSACTIONS

The Company sells mineral products to GAF Building Materials Corporation, a subsidiary of G Industries ("Building Materials"). Such sales by the Company totaled \$30.7 million, \$30.3 million and \$22.4 million for the year 1991, the year 1990, and the nine months ended December 31, 1989, respectively; and, by the Predecessor Company, \$6.6 million for the first quarter ended April 2, 1989. The amount receivable from Building Materials for such sales at December 31, 1990 was \$3.4 million, while there was no receivable from Building Materials for such sales at December 31, 1991.

The Company has provided general management, financial, legal, computer, administrative and facilities services to Building Materials and GAF Broadcasting Company, Inc. ("Broadcasting"). Amounts charged by the Company to Building Materials and Broadcasting for such services were allocated based on the operating income of the Company in each year relative to the operating income of Building Materials and Broadcasting, and represent, in the opinion of management, a fair reflection of the costs of providing such services. Such charges by the Company aggregated \$4.3 million, \$4.5 million and \$2.9 million for the year 1991, the year 1990, and the nine months ended December 31, 1989, respectively; and, by the Predecessor Company, \$.7 million for the first quarter ended April 2, 1989.

The Company has entered into a three-year Management Agreement covering 1991-1993, pursuant to which the Company agreed to provide general management, financial, legal, computer, administrative and facilities services to GAF and its subsidiaries, including Building Materials and Broadcasting for annual management fees of \$4.2 million and \$139,000, respectively. Such fees will increase by 5% per year and can be adjusted in certain limited circumstances, including the occurrence of a substantial change in the scope or nature of Building Materials' or Broadcasting's business. In the event that the Company or its employees provide services to any of its other affiliates substantially greater than

those provided in the past, such affiliate will reimburse the Company for the costs of providing such services.

In addition, the Management Agreement provides that the parties may pay certain of each other's expenses for their mutual administrative convenience until such time as such expenses can be directly billed or charged to the party which

incurred them, so long as each party which incurs such expenses promptly reimburses the party which pays the costs thereof.

Tax Sharing Agreement. See Note 5.

Intercompany Credit Agreement. See Note 8.

NOTE 12

INVESTMENT IN JOINT VENTURE

Financial data presented below pertain to GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture between the Company and Hüls Aktiengesellschaft, which operates a chemical manufacturing plant in Germany. The results of this joint

venture are accounted for by the equity method. The Company's equity in the earnings of GAF-Hüls is reflected as a reduction of cost of products sold in the Company's statements of income.

	Company			Predecessor Company
	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
(Thousands)				
Income Statement data:				
Revenues: From the Company	\$ 14,895	\$ 22,256	\$ 25,931	\$ 5,983
From others	89,326	99,020	67,155	24,144
Total revenues	104,221	121,276	93,086	30,127
Costs and expenses	78,611	79,440	60,518	18,586
Operating income	\$ 25,610	\$ 41,836	\$ 32,568	\$ 11,541
Net income of GAF-Huils for the period	\$ 16,621	\$ 19,530	\$ 17,596	\$ 6,232
Equity of the Company in earnings of GAF-Huils	7,894	9,684	8,698	3,116
Cash Flow data:				
Cash Flows From Operating Activities:				
Net income	\$ 16,621	\$ 19,530	\$ 17,596	\$ 6,232
Depreciation/amortization	4,389	4,977	3,335	994
Working capital changes	3,028	(4,500)	4,947	(18,839)
Other, net	(146)	2,076	3,192	(837)
Total	23,898	22,083	29,070	(12,450)
Cash Flows From Investing Activities:				
Capital expenditures	(576)	(3,385)	(858)	(245)
Cash Flows From Financing Activities:				
Dividends paid	(22,788)	(23,461)	(634)	—
Other, net	(361)	1,876	1,667	(289)
Total	(23,149)	(21,585)	1,033	(289)
Net change in cash and cash equivalents	\$ 173	\$ (2,887)	\$ 29,245	\$(12,984)

(Thousands)	1991	December 31, 1990	1989	April 2, 1989
Balance Sheet data:				
Current assets	\$ 53,611	\$ 57,420	\$ 60,612	\$ 27,734
Noncurrent assets	57,137	61,043	56,997	54,599
Total Assets	\$110,748	\$118,463	\$117,609	\$ 82,333
Current liabilities	\$ 9,879	\$ 33,080	\$ 40,649	\$ 9,771
Noncurrent liabilities	16,357	16,916	15,280	13,755
Total Liabilities	\$ 26,236	\$ 49,996	\$ 55,929	\$ 23,526
Net assets	\$ 84,512	\$ 68,467	\$ 61,680	\$ 58,807
Equity of the Company in net assets of GAF-Hüls	41,588	34,003	30,690	29,352

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE

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BUSINESS SEGMENT INFORMATION

(Millions)	Company			Predecessor Company
	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Net sales:				
Specialty Derivative Chemicals	\$ 411.4	\$ 396.8	\$ 272.7	\$ 92.2
Mineral Products	85.4	82.6	60.0	16.6
Other	29.0	32.3	22.0	6.1
Net sales	\$ 525.8	\$ 511.7	\$ 354.7	\$114.9
Operating income:				
Specialty Derivative Chemicals	\$ 115.5	\$ 108.1	\$ 66.9	\$ 25.8
Mineral Products	22.7	20.5	17.3	4.0
Other	2.3	4.5	5.1	1.2
Total operating income	\$ 140.5	\$ 133.1	\$ 89.3	\$ 31.0
Identifiable assets:				
Specialty Derivative Chemicals	\$ 899.3	\$ 885.9	\$ 871.2	\$285.9
Mineral Products	151.8	156.5	161.9	37.6
Other	23.6	22.1	24.7	26.7
Total assets	\$1,074.7	\$1,064.5	\$1,057.8	\$350.2
Capital expenditures				
Specialty Derivative Chemicals	\$ 29.7	\$ 30.1	\$ 16.9	\$ 3.2
Mineral Products	4.5	4.1	4.2	0.4
Other	0.2	1.4	1.8	0.2
Total	\$ 34.4	\$ 35.6	\$ 22.9	\$ 3.8
Depreciation				
Specialty Derivative Chemicals	\$ 14.9	\$ 14.5	\$ 9.2	\$ 1.7
Mineral Products	4.4	4.1	2.7	0.6
Other	0.4	0.2	0.1	--
Total	\$ 19.7	\$ 18.8	\$ 12.0	\$ 2.3

NOTE
14

GEOGRAPHIC INFORMATION

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

(Millions)	Company		Predecessor Company
	Year Ended December 31, 1991	Nine Months Ended December 31, 1990	First Quarter Ended April 2, 1989
Net sales:			
Domestic operations*	\$ 278.0	\$ 266.6	\$ 192.2
Europe**	173.9	174.2	115.3
Other foreign operations	73.9	70.9	47.2
Net sales	\$ 525.8	\$ 511.7	\$ 354.7
Operating income:			
Domestic operations	\$ 71.4	\$ 57.0	\$ 45.4
Europe***	55.2	58.3	28.2
Other foreign operations	13.9	17.8	15.7
Operating income	140.5	133.1	89.3
Interest expense and other, net	(61.5)	(87.8)	(66.1)
Income before income taxes	\$ 79.0	\$ 45.3	\$ 23.2
Identifiable assets:			
Domestic operations	\$ 930.4	\$ 928.7	\$ 928.4
Europe***	115.3	108.6	102.1
Other foreign operations	29.0	27.2	27.3
Total	\$1,074.7	\$1,064.5	\$1,057.8

*Net Sales—Domestic Operations exclude sales by the Company's domestic subsidiaries to foreign affiliates of \$107.9 million for the year 1991, \$88.8 million in 1990, \$62.9 million for the nine months ended December 31, 1989, and \$21.7 million for the first quarter ended April 2, 1989.

**Net Sales—Europe exclude sales by the Company's European subsidiaries to domestic and other foreign affiliates of \$13.6 million for the year 1991, \$12.2 million in 1990, \$12.9 million for the nine months ended December 31, 1989, and \$5.3 million for the first quarter ended April 2, 1989.

***Operating Income—Europe, and Identifiable Assets—Europe include the Company's 50% ownership of GAF-Hiils.

NOTE
15

SUPPLEMENTARY INCOME STATEMENT AND BALANCE SHEET INFORMATION

(Thousands)	Company		Predecessor Company
	Year Ended December 31, 1991	Nine Months Ended December 31, 1990	First Quarter Ended April 2, 1989
Maintenance and repairs	\$34,281	\$30,839	\$22,983
Rental expense—Operating leases	5,291	3,958	2,669

Included in accrued liabilities in the Consolidated Balance Sheets as of December 31, 1991 and December 31, 1990 are approximately \$6.5 million and \$7.5 million, respectively, of accrued environmental remediation costs.

NOTE
16

COMMITMENTS AND CONTINGENCIES

GAF, G-I Holdings, G Industries, and GCC are presently dependent upon the earnings and cash flow of their subsidiaries (including the Company) in order to satisfy obligations as of December 31, 1991 in the amount of \$14.3 million with respect to preferred dividends; \$285.3 million principal amount of debentures on which interest is payable in the form of additional debentures through March 1994, after which interest must be paid in cash, and on which the interest rate was reset to 12.875% in September 1991; and approximately \$137 million of various other liabilities including deferred taxes.

Asbestos Litigation Against GAF GAF has advised the Company that GAF has been named as a co-defendant in approximately 69,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, hav-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ing resolved approximately 73,000 other lawsuits involving similar claims. GAF has also advised the Company that GAF has been named as a co-defendant in approximately 37 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises. GAF has informed the Company that substantially all of the liabilities, including expenses incurred by GAF to date in the asbestos-related lawsuits, have been paid by insurance and that it believes, based upon its financial resources, including insurance, that the continued defense and ultimate disposition of such lawsuits will not have a material adverse effect on GAF's business or financial condition. Neither the Company nor the assets or operations of the Company or GCC, which was operated as a division of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims. Nevertheless, the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation relating to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of Common Stock of the Company, and such enforcement could result in a change of control of the Company.

Legal Proceedings. The Company has certain liabilities under New Jersey statutes and regulations relating to the closing of its plant in Linden, New Jersey (the "Linden Site"). In June 1989 and June 1990, the Company entered into two Administrative Consent Orders (the "ACOs") with the New Jersey Department of Environmental Protection and Energy ("NJDEPE") under the New Jersey Spill Compensation and Control Act, among other New Jersey laws, which establish deadlines for the Company to (i) comply with surface water discharge standards and (ii) develop a remediation plan for the Linden Site. Pursuant to the latter ACO, the Company posted letters of credit aggregating \$7.5 million to cover the anticipated costs of remediation; however, there can be no assurance as to the actual costs that will be incurred in connection with such remediation.

The Company is a party to a variety of proceedings and lawsuits involving environmental matters, including being named as defendant, respondent or a potentially responsible party, together with other companies, under CERCLA and similar state laws, in which recovery is sought for the cost of

cleanup of contaminated waste disposal sites. These proceedings and lawsuits are, for the most part, in the early stages and, due to the practices of waste disposal haulers and disposal facilities prior to adoption and implementation of the environmental laws and regulations, evidence is difficult to obtain or evaluate.

The Company is seeking dismissal of a number of the lawsuits and proceedings on the ground that there appears to be no substantial evidence of the Company's responsibility for any hazardous waste present at certain of the sites in question. At each site, the Company anticipates, although there can be no assurance, that liability, if any, will eventually be apportioned among the companies found to be responsible for the presence of hazardous waste at the site. Based on facts presently available, it is not possible to predict the eventual cost to the Company in these matters. In the opinion of management, these matters should be resolved gradually over a period of years for amounts that in the aggregate will not be material to the business or financial position of the Company.

The Company has an agreement with its comprehensive general liability insurers to cover, under a reservation of rights, the majority of the Company's liability and expenses in connection with these administrative proceedings and lawsuits. Pursuant to the agreement, the insurers pay costs of the Company in defending these administrative proceedings and lawsuits and reimburse the Company for more than a majority of its liabilities. Each insurer who is a party to this agreement is rated at least "A" by a leading independent insurance rating service, as a result of which the Company believes that the insurers have the ability to make payments pursuant to the agreement, although no assurances can be given. The Company also believes that the amount of insurance available under the policies pursuant to which the expenses and liabilities are being paid will be sufficient to cover the Company's expenses and that portion of the Company's estimated liability agreed to be paid by such insurers. In addition, the Company has established a reserve to cover costs in connection with these administrative proceedings and lawsuits.

The Company has operating leases for transportation, production and data processing equipment and for various buildings. Future minimum lease payments for properties

which were held under long-term noncancelable leases as of December 31, 1991 were as follows:

(Thousands)	
1992	\$2,605
1993	1,844
1994	1,225
1995	787
1996	543
Later years	1,221
Total minimum payments	\$8,225

NOTE

17

SUBSEQUENT EVENT

In March 1992, two domestic subsidiaries of the Company (the "Issuers") issued \$200 million of 9% Senior Notes (the "Notes"), due 1999. The Notes are guaranteed by the Company and all of its domestic subsidiaries (the "Subsidiary Guarantors"). The net proceeds from the issuance of the Notes were used by the Company to repay a portion of the Intercompany Term Note to G Industries, and by G Industries to repay a portion of the term loan under the Credit Agreement.

The Notes are general, unsecured obligations of the Issuers. Upon issuance of the Notes, the Credit Agreement was amended, with the Issuers assuming G Industries' obligations under the Credit Agreement, including the term loan and the combined revolving credit/letter of credit facility (except for obligations related to letters of credit issued on behalf of Building Materials, which are limited to \$40 mil-

lion). Based upon information presently available, management believes that the capital expenditures necessary in order to maintain the Company's compliance with environmental laws and regulations will not exceed \$5 million for each of the next five years.

In addition, all liens on assets of the Company securing the Bank indebtedness were released, with the result that the remaining Bank indebtedness and the Notes rank pari passu.

As a result of the foregoing, the Company's scheduled repayments of long-term debt for the year 1992 have been reduced to \$25.7 million, and the current portion of long-term debt as of December 31, 1991 has been adjusted to reflect such reduction.

Presented below is combined condensed financial information for the Issuers and the Subsidiary Guarantors, which together are interdependent and constitute all of the domestic subsidiaries of the Company. Financial information for the Company's foreign subsidiaries, including its investment in GAF-Hüls, is reflected in the following financial information on the equity basis of accounting.

COMBINED CONDENSED STATEMENTS OF INCOME For the Issuers and the Subsidiary Guarantors

For the Issuers and the Subsidiary Guarantors				Predecessor Company
	Company			
	Year Ended December 31, 1991	1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
(Millions)				
Net sales	\$385.9	\$355.4	\$255.1	\$ 84.5
Costs and expenses:				
Cost of products sold	233.0	219.9	157.8	58.0
Selling, general and administrative	67.4	64.5	41.7	14.1
Goodwill amortization	14.1	14.0	10.2	—
Total costs and expenses	314.5	298.4	209.7	72.1
Operating income	71.4	57.0	45.4	12.4
Interest expense	(51.2)	(83.1)	(65.1)	(1.9)
Equity in income from foreign subsidiaries and 50% owned joint venture	52.4	61.0	36.9	14.9
Other expense, net	(1.1)	(4.0)	(3.3)	(0.2)
Income before income taxes	71.5	30.9	13.9	25.2
Income taxes	(20.6)	(0.1)	(1.6)	(7.0)
Net income	\$ 50.9	\$ 30.8	\$ 12.3	\$ 18.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

COMBINED CONDENSED BALANCE SHEETS

For the Issuers and the Subsidiary Guarantors

(Millions)	December 31,	
	1991	1990
Assets		
Current Assets:		
Cash and cash equivalents	\$ 0.1	\$ 5.0
Accounts receivable, net	28.4	40.0
Inventories	54.8	56.2
Other current assets	10.0	5.6
Receivable from related parties	6.6	3.4
Total Current Assets	99.9	110.2
Property, Plant and Equipment, net	331.1	316.9
Excess of cost over net assets of businesses acquired, net	488.4	502.4
Advances and equity in investment in foreign subsidiaries and 50% owned joint venture	116.0	86.8
Other assets	11.0	6.5
Total Assets	\$1,046.4	\$1,022.8
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt and current maturities of long-term debt	\$ 0.6	\$ 0.5
Current maturities of Intercompany Term Note	18.7	32.5
Accounts payable	27.2	29.1
Accrued liabilities	32.1	35.8
Income taxes	1.4	—
Total Current Liabilities	80.0	97.9
Long-term debt less current maturities	61.4	61.9
Intercompany Term Note	282.3	567.5
Borrowings under Intercompany Revolving Note	70.0	62.2
Deferred income taxes	39.1	33.5
Other liabilities	29.2	44.8
Stockholders' Equity	484.4	155.0
Total Liabilities and Stockholders' Equity	\$1,046.4	\$1,022.8

COMBINED CONDENSED STATEMENTS OF CASH FLOWS
For the Issuers and the Subsidiary Guarantors

(Millions)	Company			Predecessor Company
	Year Ended December 31, 1991	Year Ended December 31, 1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Cash and cash equivalents, beginning of period	\$ 5.0	\$ 5.0	\$ -	\$ 7.5
Cash Flows from Operating Activities:				
Net income	50.9	30.8	12.3	18.2
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	18.5	17.3	10.9	2.1
Goodwill amortization	14.1	14.0	10.2	—
Deferred income taxes	5.5	5.1	8.1	1.7
(Increase) decrease in working capital	(3.0)	(0.3)	(20.2)	(9.0)
Change in advances and equity in investment in foreign subsidiaries and 50% owned joint venture	(29.2)	(8.0)	(26.4)	5.9
(Increase) decrease in receivable from related parties	(3.2)	3.5	(7.3)	3.9
Other, net	(12.8)	(4.0)	17.4	(0.7)
Net cash provided by operating activities	40.8	58.4	5.0	22.1
Cash Flows from Investing Activities:				
Capital expenditures	(32.7)	(33.7)	(21.8)	(3.8)
Acquisition of Predecessor Company, net of cash acquired	—	—	(585.3)	—
Acquisition of Sutton Laboratories, net of cash acquired	—	—	(32.0)	—
Net cash used in investing activities	(32.7)	(33.7)	(639.1)	(3.8)
Cash Flows from Financing Activities:				
Proceeds from initial public offering	281.3	—	—	—
Proceeds from debt incurred to acquire Predecessor Parent Company	—	—	611.1	—
Increase (decrease) in long-term debt	(291.7)	(5.0)	50.8	—
Change in cumulative translation adjustment	(0.2)	11.6	7.4	(2.9)
Dividends and distributions to GCC	(27.7)	(31.3)	(30.3)	(18.2)
Capital contribution by GCC	25.3	—	—	4.1
Other, net	—	—	0.1	—
Net cash provided by (used in) financing activities	(13.0)	(24.7)	639.1	(17.0)
Net change in cash and cash equivalents	(4.9)	—	5.0	1.3
Cash and cash equivalents, end of period	\$ 0.1	\$ 5.0	\$ 5.0	\$ 8.8

The advances and equity in investment in foreign subsidiaries and 50% owned joint venture and the related equity in income from foreign subsidiaries and 50% owned joint venture include the results of the wholly owned foreign subsidiaries of the Company and its 50% owned joint venture, GAF-Hüls (see Note 12). Profits in inventory on sales to the foreign subsidiaries and the joint venture have been eliminated. Operating income includes \$30.1 million, \$21.7 million and \$14.9 million of profits on sales made to the

foreign subsidiaries and the joint venture for the year 1991, the year 1990 and the nine months ended December 31, 1989, respectively, and, for the Predecessor Company, \$5.5 million for the first quarter ended April 2, 1989.

Dividends received from these entities aggregated \$40.1 million, \$43.0 million and \$14.7 million for the year 1991, the year 1990 and the nine months ended December 31, 1989, respectively, and, for the Predecessor Company, \$9 million for the first quarter ended April 2, 1989.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and a wholly-owned subsidiary of GAF Chemicals Corporation) and subsidiaries as of December 31, 1990 and 1991, and the related consolidated statements of income, stockholders' equity and cash flows for the nine-month period ended December 31, 1989 and the years ended December 31, 1990 and 1991. We have also audited the accompanying consolidated statement of income and cash flows of International Specialty Products Inc. Predecessor Company and subsidiaries for the first quarter ended April 2, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1990 and 1991, and the results of their operations and their cash flows for the nine-month period ended December 31, 1989 and the years ended December 31, 1990 and 1991, and the results of operations and cash flows of International Specialty Products Inc. Predecessor Company and subsidiaries for the first quarter ended April 2, 1989, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Arthur Andersen & Co.
Roseland, New Jersey
March 3, 1992

International Specialty Products Inc.

SUPPLEMENTARY DATA (Unaudited)

QUARTERLY FINANCIAL DATA (Unaudited)

(In millions, except per share amounts)	1991 By Quarter				1990 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net sales	\$138.7	\$136.2	\$128.5	\$122.4	\$134.2	\$123.3	\$129.2	\$125.0
Cost of products sold	71.2	67.1	63.4	66.6	74.1	60.2	70.2	64.6
Gross profit	\$ 67.5	\$ 69.1	\$ 65.1	\$ 55.8	\$ 60.1	\$ 63.1	\$ 59.0	\$ 60.4
Operating income	\$ 38.8	\$ 40.6	\$ 34.7	\$ 26.4	\$ 33.9	\$ 35.8	\$ 32.7	\$ 30.7
Income before income taxes	\$ 20.3	\$ 22.7	\$ 20.1	\$ 15.9	\$ 13.2	\$ 13.5	\$ 12.3	\$ 6.3
Income taxes	7.4	7.9	7.1	5.7	3.5	3.6	3.5	3.9
Net income	\$ 12.9	\$ 14.8	\$ 13.0	\$ 10.2	\$ 9.7	\$ 9.9	\$ 8.8	\$ 2.4
Earnings per common share*	\$.16	\$.18	\$.13	\$.10	\$.12	\$.12	\$.11	\$.03

*In accordance with the provisions of APB Opinion No. 15, earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the interim periods. Earnings per common share for each quarter of 1990 and the first and second quarters of 1991 were calculated based

on the 80.5 million common shares outstanding prior to the initial public offering (see Note 2 of Notes to Consolidated Financial Statements), while earnings per common share for the third and fourth quarters of 1991 were calculated based on 99.9 million common shares outstanding after the initial public offering.

BOARD OF DIRECTORS

Stephen A. Bloch
Senior Vice President,
General Counsel and Secretary,
International Specialty
Products Inc.

Thomas C. Bohrer
President and Chief
Operating Officer,
International Specialty
Products Inc.

Charles M. Diller
Chairman of the Board,
Cantel Industries, Inc.

Carl R. Eckardt
Executive Vice President,
Corporate Development,
International Specialty
Products Inc.

Harrison J. Goldin
Partner,
Goldin Associates, L.P.

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer,
International Specialty
Products Inc.

CORPORATE OFFICERS

Samuel J. Heyman
Chairman of the Board and
Chief Executive Officer

Thomas C. Bohrer
President and
Chief Operating Officer

Carl R. Eckardt
Executive Vice President,
Corporate Development

David I. Barton
Senior Vice President
and General Manager,
Specialty Derivative Chemicals

Stephen A. Bloch
Senior Vice President,
General Counsel and Secretary

James J. Strupp
Senior Vice President,
Human Resources

Arthur Dreeser
Vice President and
General Manager,
Advanced Materials

T. H. King
Vice President and
General Manager,
Mineral Products

Raymond W. Smith, Jr.
Vice President,
International

Robert H. Steinfeld
Vice President,
Taxes

Jonathan H. Stern
Vice President
and Controller

Mark A. Presto
Treasurer

SHAREHOLDER INFORMATION

ANNUAL MEETING

The 1992 Annual Meeting of
Shareholders will be held at 10 a.m.
Tuesday, April 28, at:
The Bank of New York
48 Wall Street, 11th Floor
New York, New York

FORM 10-K

A copy of the Company's Annual Report
on Form 10-K, as filed with the
Securities and Exchange Commission,
may be obtained free of charge by
writing to:
International Specialty Products
Shareholder Relations Department
1361 Alps Road
Wayne, New Jersey 07470
(201) 628-4000
(800) 526-5315

STOCK TRANSFER AGENT AND REGISTRAR

The Bank of New York
101 Barclay Street
New York, New York 10286
(800) 524-4458

INVESTOR RELATIONS

Inquiries should be directed to:
Robert K. Steidlitz
Director, Investor Relations
International Specialty Products
1361 Alps Road
Wayne, New Jersey 07470
(201) 628-3005

International Specialty Products Inc.
common stock is listed
on the New York Stock Exchange
(symbol "ISP").

ISP LOCATIONS

UNITED STATES

Manufacturing
Alabama, Huntsville
Kentucky, Calvert City
Missouri, Annapolis
New Jersey, Chatham
Pennsylvania, Blue Ridge Summit
Texas, Seadrift
Texas, Texas City
Wisconsin, Pembine

R&D
Alabama, Huntsville
Maryland, Hagerstown
New Jersey, Chatham
New Jersey, Wayne

Sales
California, Irvine
Illinois, Lombard
Maryland, Hagerstown
Michigan, Livonia
New Jersey, Bound Brook
New Jersey, Chatham
New Jersey, Wayne
North Carolina, Charlotte
Texas, Dallas

INTERNATIONAL

Manufacturing
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Singapore

R&D
Belgium, Sint-Niklaas
Great Britain, Guildford
Singapore

Sales
Australia, Silverwater, N.S.W.
Australia, Box Hill, Victoria
Austria, Vienna
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Canada, Ville St. Laurent, Quebec
China, Shanghai
France, Paris

Germany, Frechen
Great Britain, Guildford
Great Britain, Manchester
Hong Kong
Hungary, Budapest
Italy, Milan
Japan, Tokyo
Korea, Seoul
Mexico, Mexico City
Netherlands, Schiedam
New Zealand, Otahuhu
Portugal, Lisbon
Puerto Rico, Rio Piedras
Singapore
Spain, Barcelona
Sweden, Johanneshov
Switzerland, Zug
Taiwan, Taipei
Thailand, Bangkok

Affiliate:
GAF/Huls Chemie GmbH
Marl, Germany



International Specialty Products
1361 Alps Road
Wayne, New Jersey 07470

